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Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core.

### **Our Mission**

We relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

Under the leadership of Lei Jun, Xiaomi was founded in 2010 by a group of accomplished engineers and designers, who believed that high-quality and well-designed technology products and services should be accessible to the world. To achieve this, we are unwavering in our pursuit of advances in innovation, quality, design, user experience and efficiency in an effort to provide the best technology products and services that are accessibly priced to our users.

*Our Pledge:* In order to achieve our mission, we pledge to our existing and potential users that starting in 2018, Xiaomi's hardware business (including smartphone, IoT and lifestyle products) will have an overall net profit margin that will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess above 5% to our users.

### **Our Vision**

Be friends with our users. Be the coolest company in the hearts of our users.

### **Our Core Values**

Our core values are sincerity and passion.

Our values enable us to pursue and uphold our mission and vision. Our passion for our business drives us to pursue artisanal craftsmanship in all our products. We aspire for perfection in every detail, even if others may not notice immediately. Our sincerity drives us to place our users at the heart of everything we do and listen attentively to their every request. It motivates us to pursue efficiency in our business model in order to continuously provide our users with unparalleled value.

### **Our Mi Fans**

We have a large and highly engaged global user base with approximately 190 million monthly active MIUI users as of March 2018. We believe that our user base is differentiated by our “Mi Fans,” a large global community of passionate users who are intensely loyal to the Xiaomi brand, are highly engaged on our platform and actively contribute feedback and feature ideas to our product development. As of March 31, 2018, over 1.4 million users had more than five connected Xiaomi products (excluding smartphones and laptops). In addition, our users are very vocal on our MIUI forum, which has over nine million MAUs in March 2018. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010.



**“Mi Pop” - Mi Fan Event**



**Shenzhen**



**“Mi Pop” - Mi Fan Event**



**Bangalore**



**Madrid**

### **Our Milestones**

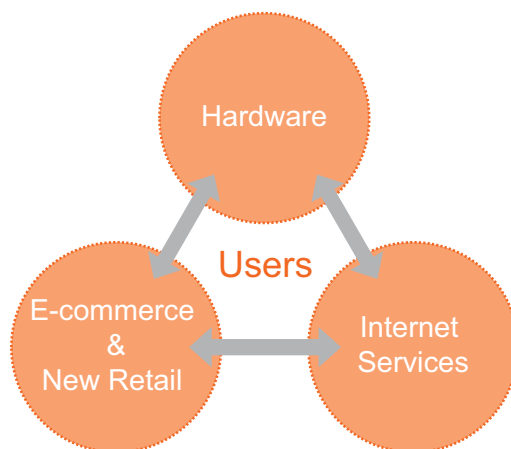
Our unique mission, vision and core values have made the following significant achievements possible since our inception in 2010:

- 2012: Annual sales exceeded US\$1 billion (two years after inception)
- 2014: Number one smartphone company in mainland China by unit shipments, according to IDC (three years after launching our first smartphone)
- 2014: Annual sales exceeded US\$10 billion, four years after inception, which is the fastest in history, according to iResearch
- 2015: MIUI MAUs exceeded 100 million
- 2017: The world’s largest consumer IoT platform in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch
- 2017: Number one smartphone company in India by unit shipments in the fourth quarter of 2017, according to IDC (three and a half years after officially entering the India market)
- 2017: Fastest growing internet company and second fastest growing company globally, as measured by organic revenue growth compared to publicly-listed profitable companies with revenue of over RMB100 billion in 2017, according to iResearch

### **Our Business Model**

Our Company is built on innovation and efficiency. As a company founded by engineers and designers, we embrace a culture of bold innovation to push the boundaries of what technology can offer. A spirit of innovation permeates our Company and guides everything we do. In addition, we are relentless in our pursuit of efficiency. We strive to achieve cost savings to deliver value back to our users.

Our unique and powerful “triathlon” business model comprises three synergistic pillars of growth—(i) innovative, high quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.



#### *Hardware*

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products including smartphones, laptops, smart TVs, AI speakers and smart routers. During the Track Record Period, we derived a majority of our revenue from smartphone sales. Over 75% of the smartphones sold (in terms of units) during the Track Record Period were smartphones with prices of RMB1,299 and below. We experienced weakened smartphone sales in 2016 for two primary reasons: (i) we invested in building our highly efficient offline retail channels in 2016 in order to better capture offline opportunities and to complement our existing strong foundation in e-commerce; and (ii) we experienced a rapid revenue growth from nil since we began operations in 2010 to RMB66.8 billion in 2015. During the course of 2016, we focused on strengthening our innovation, quality and supply management to lay a more solid foundation for the scale and growth we were operating at. As a result, we resumed rapid growth in 2017 after our recalibration.

We curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies were focused on the development of smart hardware and lifestyle products as of March 31, 2018. This has enabled us to build the largest consumer IoT platform globally in terms of the number of connected devices as of March 31, 2018, excluding smartphones and laptops, according to iResearch. We had over 100 million connected

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devices, excluding smartphones and laptops, as of March 31, 2018. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

### *New Retail*

Our highly efficient omni-channel new retail distribution platform is a core component of our growth strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our users' experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with users. We were number one in terms of smartphone unit shipments online in both mainland China and India in the first quarter of 2018, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct sales online retail platform in mainland China by GMV in 2017 and in the first quarter of 2018, respectively, according to iResearch. We were also the third-largest direct sales online retail platform by GMV in India in 2017 and in the first quarter of 2018, respectively, according to the same source. Since 2015, we have significantly expanded our direct offline retail network, for example, through our self-operated Mi Home stores. Our direct offline retail capability allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. In 2017, our self-operated Mi Home stores generated the second highest average sales per square meter amongst retail store chains globally, according to iResearch. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

### *Internet Services*

We provide internet services to give our users a complete mobile internet experience. In March 2018, we had approximately 190 million MAUs on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between hardware and internet services enable us to provide our users with better user experience. Furthermore, we have a proven track record of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs, including our Mi App Store, Mi Browser, Mi Music and Mi Video apps. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

### *Network Effects*

Our unique and powerful triathlon business model comprises three synergistic pillars that are closely connected. We strive to offer killer products that are high quality, high performance, well designed and honestly priced. These products in turn bring additional traffic to our retail channels. We deliver our products to users at accessible prices through our highly efficient new retail channels such as our e-commerce platforms and our Mi Home stores. With our internet services, we closely engage and interact with users on our platform, thus increasing user stickiness and monetization opportunities.

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This business model has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we are set to deliver better and richer user experience, which will, in turn, attract more users to our platform.

### **Cloud, Big Data and Artificial Intelligence (AI)**

We believe that the sheer amount of unique consumer and behavioral data created by our platform gives us a massive advantage in the field of big data and AI. For example, the extensive breadth of our connected smart hardware portfolio places our platform at the center of the daily lives of our users; our retail channels allow us to deeply understand the purchasing habits of our users; and our users express their online preferences through our cloud services, apps and internet services. As a result, we can leverage our understanding of each user's personalized needs and habits to provide customized recommendations and further improve our monetization ability. Our unified Xiaomi account service, launched in 2012, allows our users to get access to cloud services, shop online, enjoy content and access many services we provide. With prior user consent, we have accumulated more than 230PB of proprietary data on our cloud services as of March 31, 2018. Such data is stored in compliance with strict data privacy standards and data security requirements we have in place. See section headed “—Data Privacy and Protection.” Since 2016, the privacy practice of our MIUI and Mi Store has been certified by TrustArc, a privacy compliance and risk management company that conducts comprehensive assessments of privacy policy and control measures. Our proprietary deep learning and AI capabilities together with the active user engagement on our platform, empower us to continuously improve our products and services. For example, our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy. Going forward, we will continue to launch new and smarter AI-enabled technology products and services such as our Mi AI Speaker, which was launched in July 2017.

### **Our Global Opportunities**

Since our inception in 2010, we have continually grown our user base in mainland China through our pioneering business model. We have also successfully tailored our strategy internationally to new markets and are present in 74 countries and regions as of March 31, 2018. We have successfully achieved a foothold in key international markets. For example, we ranked number one in India in terms of smartphone unit shipments in the first quarter of 2018. We were also the top five in 15 markets in the fourth quarter of 2017, according to IDC.

We see massive global opportunities ahead of us. There were approximately 3.9 billion mobile internet consumers globally in 2017 according to iResearch. The global smartphone and consumer IoT device installed base are expected to grow at 6% and 25% CAGR, respectively, from 2017 to 2022, according to IDC and iResearch. This indicates that there will be continued demand for premium products and services at accessible and honest prices to achieve a connected lifestyle.

For example, we were able to price our Redmi Note 5 Pro in India at a price point that was significantly lower than comparable products, while simultaneously offering high quality specifications and great user experience. By continuing to deliver innovative, high-quality, well-designed and accessibly priced products and services focused on exceptional user experience, we believe we are best

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positioned to meet the needs of users globally. We embrace this opportunity to change the world by letting everyone in the world enjoy a better life through innovative technology.

As we expand our business globally, we have been able to achieve increasing profitability as we grow our revenue. During our Track Record Period, our revenue grew from RMB66.8 billion in 2015 to RMB114.6 billion in 2017, and grew from RMB18.5 billion in the three months ended March 31, 2017 to RMB34.4 billion in the three months ended March 31, 2018. We had an adjusted non-IFRS profit of RMB5.4 billion in 2017, compared to an adjusted non-IFRS loss of RMB0.3 billion in 2015. Our adjusted non-IFRS profit increased from RMB0.7 billion in the three months ended March 31, 2017 to RMB1.7 billion in the three months ended March 31, 2018.

### OUR STRENGTHS

#### 1. Our Founders

Xiaomi is led by our Founder, Chairman and Chief Executive Officer, Lei Jun, a highly respected entrepreneur with close to 30 years of industry experience. Lei Jun previously co-founded successful internet companies such as Kingsoft (HKEx Stock Code: 3888) and Joyo.com (sold to Amazon in 2004) and was a key investor in leading internet companies such as YY Inc. (Nasdaq ticker: YY) and UCWeb (sold to Alibaba in 2014). Lei Jun's proven track record and extensive experience in software, e-commerce, investment and mobile internet services provide clear leadership and strong commitment to our mission and execution.

Lei Jun's iconic leadership has been recognized globally. In 2013, Lei Jun was awarded the "China Economic Figures of the Year" award by China Central Television (CCTV). In 2015, Lei Jun was the only Chinese entrepreneur among the "World's 100 Most Influential People of the Year" selected by TIME Magazine. He also received the "Asia Game Changer Award" from the Asia Society in the same year. In November 2017, Lei Jun was elected Vice Chairman of the All-China Federation of Industry and Commerce. In February 2018, he was also elected Vice President of the China Association for Quality.

Lei Jun started Xiaomi with the Co-founders, who are all engineers or designers with decades of hardware and software development experience. They worked at prominent global technology companies, including Google, Microsoft and Motorola, before starting Xiaomi. Our Founders have been instrumental in instilling a genuinely transparent, efficient, inclusive and accessible corporate culture. This culture is the powerful driving force behind our collective passion to deliver advancements in innovation, quality, design and user experience across all of our products and services.

#### 2. Passionate Users

Leveraging our innovative, high-quality, well-designed technology products and services focused on exceptional user experience as well as our unique business model, we have amassed a large and rapidly growing user base.

Our users are highly engaged and spend a significant amount of time interacting within the Xiaomi platform. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. We believe our users have a high level of trust in our brand.

Within our user base, we have a highly dedicated and intensely loyal group of users who have nicknamed themselves Mi Fans. These fans are very passionate about Xiaomi and own many of our products. For example, as of March 31, 2018, over 1.4 million users had more than five connected Xiaomi products (excluding smartphones and laptops). Furthermore, our Mi Fans actively follow and support the latest developments of our Company. This extends outside mainland China to places such as India, Indonesia and Spain, where thousands of avid Mi Fans queued up for hours outside each new flagship store on the opening day. In addition, we also benefit from our enthusiastic Mi Fans through their passionate word-of-mouth marketing, which minimizes our sales and marketing costs, and their constructive product feedback, which helps us constantly improve our products and services. Our users are very vocal on our MIUI forum, which had over nine million MAUs in March 2018. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010.

### **3. Triathlon Business Model**

We believe the three components of our unique business model are complementary to each other, creating robust barriers to entry for potential competitors and enabling us to create a sustainable business model that cannot be easily replicated by competitors. The seamless integration of our smart hardware products, new retail and internet services has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we will deliver better and richer user experiences, which will, in turn, attract more users to our products and services.

Smartphones and IoT products form a valuable platform to attract new users. We are able to acquire users at a positive margin through the sale of our innovative, high-quality, well-designed and user-centric hardware products, which serve as the gateway to providing our users with internet services. Our killer products also bring additional traffic to our retail channels. In addition, our omni-channel retail strategy, comprised of highly efficient and complementary online and offline retail channels, enables us to sell our products at highly accessible prices, increasing our reach and depth of product distribution. This results in rapid expansion of our user base across different geographies. Having amassed a large and engaged user base through our innovative hardware and efficient new retail, we monetize our users through our vast platform of internet services, which include our proprietary apps.

Leveraging our innovative hardware portfolio, superior user experience and efficient new retail, we have accumulated a large active and loyal user base, which we can effectively monetize through advertising and internet value-added services. This has resulted in average internet services revenue per user growing from RMB28.9 in 2015 to RMB57.9 in 2017. Our internet services are a key contributor for our business. In the three months ended March 31, 2018, 9.4% and 46.8% of our revenues and gross profit came from internet services, respectively.

As we leverage our economies of scale and continue to grow our business, we have been able to achieve increasing profit and profitability. We had an adjusted non-IFRS profit of RMB5.4 billion in 2017, compared to an adjusted non-IFRS loss of RMB0.3 billion in 2015. Our adjusted non-IFRS profit increased from RMB0.7 billion in the three months ended March 31, 2017 to RMB1.7 billion in the three months ended March 31, 2018.

#### **4. Innovation and Design**

We have amassed a strong track record in innovation and design. We leverage our in-house design capabilities and continuous feedback from our users and Mi Fans to develop high-quality products and services with advanced features and compelling aesthetic designs that are very user friendly.

For example, our Mi MIX smartphone model is distinguished by its pioneering ceramic unibody and bezel-less display. Mi MIX and Mi MIX 2 were the first smartphones added to the collection of the George Pompidou National Arts and Cultural Center in France, according to iResearch. As of March 31, 2018, we have received more than 200 industrial design awards for our smartphones and IoT products. We were awarded the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design Gold award. These awards are further testaments to our industry-leading design capabilities and craftsmanship.

We have also achieved numerous technological breakthroughs. In 2017, we launched our Surge S1 SoC and incorporated them into our Mi 5C series, leading Xiaomi to become one of the only four current global smartphone companies to launch a proprietary SoC, according to iResearch. As of March 31, 2018, our patent portfolio included over 16,000 pending patent applications and over 7,000 issued patents, among which approximately 50% were granted overseas.

Furthermore, we developed MIUI, our very own operating system built on the Android kernel. We have constantly improved the MIUI platform by incorporating direct feedback from our Mi Fans and updating the MIUI developer version on a weekly basis since August 2010. In addition, we have a proven ability of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAU and 18 apps with more than 50 million MAU, including Mi App Store, Mi Browser, Mi Music and Mi Video.

#### **5. Efficiency**

We operate with a relentless focus on operational efficiency in order to realize overall cost savings, which we return to our users.

Our online sales channels are highly efficient, as evidenced by their low distribution costs. Leveraging the growth of e-commerce, we are able to capture more customers who prefer to purchase through our online channels. Mi Store and Youpin are our self-owned direct e-commerce platforms. We are number one in terms of smartphone unit shipments online in both mainland China and India in the first quarter of 2018, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct sales online retail platform in mainland China by GMV in 2017 and in the first quarter of 2018, respectively, according to iResearch. We were also the third-largest direct sales online retail platform in India by GMV in 2017 and in the first quarter of 2018, according to the same source. We cooperate with third-party e-commerce platforms such as JD.com, Tmall, Flipkart, TVS Electronics and Amazon to leverage their localized sales and marketing expertise, logistics and payment infrastructure. We have been consistently ranked first in smartphone sales during Tmall's Annual Singles' Day shopping festival since we first participated in 2013.

In addition to our online channels, we have built a complementary offline retail network. Our offline retail network is comprised of our self-operated Mi Home retail stores as well as third-party offline retail partners whom we supply our products directly. As of March 31, 2018, we had 331 Mi



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Home retail stores in mainland China, which has increased from 51 as of December 31, 2016. Our Mi Home retail stores provide users an immersive opportunity to experience our products first-hand, which increases their propensity to purchase our products offline and online. Our superior offline experience also improves user loyalty and satisfaction.

We have approached our offline retail strategy with a similar efficiency level as our online distribution, achieving an average of approximately RMB240,000 in annual sales per square meter in our self-operated Mi Home retail stores in 2017, which is the second highest globally among retail store chains, according to iResearch. We will continue to maintain our efficiency in offline retail and promote accessibility by supplying our hardware products directly to our offline endpoint retail partners, thereby eliminating redundant price mark-ups between distribution layers.

Our operational efficiency also extends to our supply chain costs. Our economies of scale allow us to increase our leverage with our assembly and component third party partners, which in turn allows us to benefit from more beneficial pricing terms and optimize our cost structure.

### **6. Ecosystem**

We have built an extensive ecosystem through the broad range of technology products and services that we have developed in-house or in collaboration with our ecosystem partners.

We have invested in or incubated over 210 companies as of March 31, 2018, including more than 90 companies that are focused on the development of smart hardware and lifestyle products, to enhance our ecosystem. Many of our investments have since become very successful. For example, the number one power bank, air purifier and electric scooter companies globally, and the number one smart wearable company in mainland China by unit shipments in 2017 and in the first quarter of 2018, respectively, according to iResearch, are companies that we invested in. We identify promising startups and founders that share the same core values as us and support them with our brand, capital, supply chain, product design and management expertise, as well as access to our highly efficient online and offline retail network. This strategy has allowed us to build the largest consumer IoT platform globally as of March 31, 2018 in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch. As of March 2018, we had over 100 million connected devices (excluding smartphones and laptops), all of which are connected to our platform. We have made investments in other strategic areas in the mobile internet space.

Strategic investments are a core part of our corporate development strategy. Our investment strategy is (i) to deepen strategic cooperation with partners through investing and becoming active shareholders and (ii) to apply financial investment rigor and invest in only our best-in-class partners. Furthermore, we believe that our investments enable us to efficiently expand our ecosystem. Through the sharing of resources, we are able to accelerate the time to market for innovative product and service offerings without sacrificing our commitment to provide high quality, great design, and an exceptional experience to users.

Our strategic investments have not only allowed us to forge close partnerships with investee companies to create synergies across our ecosystem, but have also provided us with stable and recurring investment income.

## **7. Cloud, big data and AI capabilities**

We believe that the sheer amount of unique consumer and behavioral data created by our platform gives us a massive advantage in the field of big data and AI. Our cloud services enable users to connect to our smart hardware, online retail and internet services through a single unified Xiaomi account, thereby allowing us to capture sequential data throughout our platform. For example, the extensive breadth of our connected smart hardware portfolio places our platform at the center of the daily lives of our users; our retail channels give us an in-depth understanding of the purchasing habits of our users; and our users express their online preferences through our apps and services. Our unified Xiaomi account service, launched in 2012, allows our users to access cloud services, shop online, enjoy content, and utilize the many services we provide. With prior user consent, we have accumulated more than 230PB of proprietary data on our cloud services as of March 31, 2018. Such data is stored in compliance with strict data privacy standards and data security requirements we have in place.

We leverage our deep understanding of our users' daily lives to further improve our user experience, customize to local markets and create more innovative technology products and services. Since 2012, we have been focusing on developing our deep learning and AI technologies, which we have incorporated into our products and services. For example, our AI technology has enabled us to improve the image quality of pictures taken by our smartphones, optimize the image search and notification functions of our MIUI operating system, and develop proprietary technologies such as facial recognition capabilities in video footages. We have also begun to develop AI enabled user-facing products to meet the ever changing needs of our users and enhance their experience.

Since 2017, Xiaomi and its ecosystem partners have launched AI enabled products, such as Mi MIX 2S, Mi TV, Mi Box and Mi AI Speaker, in 13 verticals. These products contain user-facing features that are aimed at improving communication and interaction, including our AI voice assistant and AI content recommendation. Our users have provided highly positive responses to these products. Our AI assistant had been installed on more than 23 million smart devices as of March 31, 2018 and had over 13 million MAUs in March 2018. As of March 31, 2018, our AI assistant can control 118 product models within our platform with applications covering content consumption, productivity tools and other forms of interaction.

## **8. Global**

We have successfully expanded overseas. Our Xiaomi brand is identified as one of the most recognized global consumer electronic brands, according to iResearch. We are present in 74 countries and regions across the world as of March 31, 2018. We are among the top five in smartphone unit shipments in 15 global markets in the fourth quarter of 2017, according to IDC.

Our unique triathlon business model is not only successful in mainland China, but has been tested and replicated effectively on a global basis. In India, we became the number one smartphone company only three and a half years after officially entering the market, with a 26.8% market share in the fourth quarter of 2017, according to IDC. We continued to be number one in India in terms of smartphone unit shipments in the first quarter of 2018 with a 30.3% market share, according to IDC. Xiaomi India is also number one in terms of smartphone unit shipments online in India in the first quarter of 2018, according to IDC, and is the third largest direct sales online retail platform in India by GMV in 2017 and in the first quarter of 2018, respectively, according to iResearch. We have a local product and R&D team, and we customize our products and services for India's local conditions, for example by adding dual pyrolytic graphite sheets designed specifically for our smartphones in order to

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decrease the phone temperature and adjusting our chargers for our smartphones to handle India's fluctuations in power supply. Our international success is proof that our business model can be extended to many other countries and regions outside of mainland China.

In 2017, our international sales reached RMB32.1 billion, or 28.0% of our total revenue, compared to RMB9.1 billion in 2016, and in the three months ended March 31, 2018, our international sales reached RMB12.5 billion, or 36.2% of our total revenue, compared to RMB4.3 billion in the three months ended March 31, 2017.

### OUR STRATEGIES

#### 1. Unwavering focus on innovation, quality, design and user experience

We will continue to pursue artisanal craftsmanship in all our products. We will relentlessly focus on technological innovation, quality and design to drive high-quality user experience and grow our loyal and engaged user base. Going forward, we will continue to invest in research and development and prudently manage our high-quality human capital to maintain our leadership position in innovation, quality, design and user experience.

#### 2. Maintain relentless efficiency

We will continue to enhance our highly efficient retail channels, boost supply chain cost efficiencies and drive distribution efficiencies to ensure the continued price accessibility of our products and services to grow our user base. We will continue to do these both online and offline.

#### 3. Expand killer product offerings

We will continue to develop and selectively launch new killer products, including new kinds of smartphones, IoT and lifestyle products, and internet services, to cater to the various needs of our users. We believe that developing and launching new killer products is in our DNA, and this capability will continue to be extended through our ecosystem.

#### 4. Enrich internet services

We will develop and invest in diverse internet services to further enhance user experience, engagement and retention. We believe that internet services will enable us to continue to grow our user base and increase user monetization, which will boost our financial growth and profitability. Furthermore, we will promote our cloud computing services to our users. We intend to leverage our advanced big data and artificial intelligence capabilities to analyze our proprietary data to improve user experience via smarter and more customized services in compliance with our strict data privacy policies.

#### 5. Invest in and expand our ecosystem

We will continue to identify, invest in and incubate promising companies, primarily in the fields of IoT and mobile internet services, in order to further expand our ecosystem. We aspire to strengthen our ecosystem partners and enable them to grow rapidly and develop innovative, high-quality, well-designed products and services with exceptional user experience for our users. By expanding our ecosystem, we can accelerate the rollout of new complementary products and services, enabling us to grow our user base in mainland China and globally.

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### 6. Broaden international expansion

We intend to leverage our strong execution capabilities to extend and localize our unique business model internationally in order to grow our user base and increase user monetization. For example, we expect to leverage our number one position in the Indian smartphone market to expand and monetize our user base. Outside of mainland China and India, we will focus on significantly expanding our operations globally in order to capture the promising growth opportunities ahead of us.

#### Our Business

Our Company is built on innovation and efficiency. As a company founded by engineers and designers, we embrace a culture of bold innovation to push the boundaries of what technology can offer. A spirit of innovation permeates our Company. We are also a company which deeply believes in efficiency. We firmly believe we need to be strictly disciplined in all aspects of our operations and we strive to achieve cost savings to deliver value back to our users.

Our unique and powerful “triathlon” business model comprises three synergistic pillars of growth—(i) innovative, high-quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.

During the Track Record Period, we generated revenues from four business segments: smartphones, IoT and lifestyle products, internet services and others. The following table sets forth a breakdown of revenue contribution from these four business segments both as an absolute amount and as a percentage of total revenues for the years indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(unaudited)									
Smartphones	53,715,410	80.4	48,764,139	71.3	80,563,594	70.3	12,193,852	65.8	23,239,490	67.5
IoT and lifestyle products	8,690,563	13.0	12,415,438	18.1	23,447,823	20.5	4,160,665	22.5	7,696,566	22.4
Internet services	3,239,454	4.9	6,537,769	9.6	9,896,389	8.6	2,029,637	10.9	3,231,350	9.4
Others	1,165,831	1.7	716,815	1.0	716,936	0.6	147,639	0.8	244,956	0.7
<b>Total</b>	<u>66,811,258</u>	<u>100.0</u>	<u>68,434,161</u>	<u>100.0</u>	<u>114,624,742</u>	<u>100.0</u>	<u>18,531,793</u>	<u>100.0</u>	<u>34,412,362</u>	<u>100.0</u>

#### Hardware

In the first quarter of 2018, our product portfolio included approximately 1,600 SKUs of products sold in mainland China that were developed in-house or in collaboration with our ecosystem partners. We offer our full line-up of products to consumers in mainland China. In the rest of the world, the availability of our hardware products varies by country and region.

*Diverse products.* We design and develop a suite of core in-house products, including smartphones, laptops, smart TVs, AI speakers and smart routers. We also curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies are focused on the development of smart hardware and lifestyle products as of

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March 31, 2018. In collaboration with us and centered around our users, our ecosystem partners produce a wide range of IoT and lifestyle products, such as smart home appliances, wearable products and transportation devices. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high quality, aesthetically pleasing designs, user-oriented features and price accessibility.

*Innovative technologies and high-quality, artisanal craftsmanship.* We relentlessly pursue the latest technological innovations in the industry for each of our products. For example, we introduced the first bezel-less smartphone, which incorporated various innovative technologies such as using vibrating ceramic acoustic techniques to replace speakers and using ultrasonic proximity sensors to replace infra-red proximity sensors. We believe our brand series, primarily consisting of Mi, Redmi, Mi Home and Youpin, are synonymous with high quality and aesthetically pleasing products across all categories. We believe our users have confidence that they can expect the same high level of quality and artisanal craftsmanship from all our products. To reinforce this brand identity, we only work with hardware and lifestyle products partners who share our product and design philosophy.

As of March 31, 2018, we have received over 200 industrial design awards from reputable international and Chinese associations and organizations recognizing the exceptional designs of our products, including the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design Gold award. According to iResearch, our Mi MIX and Mi MIX 2 were the first smartphones added to the collection of the George Pompidou National Arts and Cultural Center in France. Our Mi MIX was also added to the world-renowned collection of the Finnish National Design Museum in Helsinki and the permanent collection of the International Design Museum, Munich.

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*Exceptional user experience.* Our smartphones and smart TVs are designed for optimal integration with our MIUI operating system. Our IoT products are seamlessly integrated with our own Mi Home mobile app, which allows us to tap into a wide variety of application scenarios. For example, our proprietary AI assistant can control 118 product models on our platform as of March 31, 2018, including smart lamps, Mi TVs, Mi Air Purifiers and a variety of other connected smart home products. Mi Bands can automatically turn off smart lamps when they sense a user has fallen asleep. Users can set our Mi Air Purifiers to automatically place orders for new filters through our Mi Home mobile app when the purifiers detect that existing filters need to be replaced.

**Over 90 companies focused on the development of smart hardware and lifestyle products**



In order to achieve our mission, we pledge to our existing and potential users: starting in 2018, Xiaomi's hardware business (including smartphones, IoT and lifestyle products) will have an overall net profit margin that will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess above 5% to our users.

In the following sections, the suggested retail prices cited are suggested retail prices in mainland China. For markets outside of mainland China, suggested retail prices are similar to those in mainland China but are adjusted for local markets.

### ***Core In-House Products***

#### ***Smartphones***

In the first quarter of 2018, we ranked number four globally in terms of smartphone unit shipments and number one in India in terms of smartphone unit shipments, according to IDC. To cater

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to our diverse user base, we have smartphone models available in each of the following five price ranges: (i) RMB3,000 and above, (ii) RMB2,000 to RMB2,999, (iii) RMB1,300 to RMB1,999, (iv) RMB800 to RMB1,299 and (v) RMB799 and below. All of our smartphones feature accessible prices at the time of launch versus those of comparable products. Our smartphones operate on MIUI, our proprietary operating system built on the Android kernel.



The following table sets forth the revenues from and sales volume of smartphones under each price range during the Track Record Period:

Price Range	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	Revenues (RMB thousands)	Units sold (thousands)	Revenues (RMB thousands)	Units sold (thousands)	Revenues (RMB thousands)	Units sold (thousands)	Revenues (RMB thousands)	Units sold (thousands)	Revenues (RMB thousands)	Units sold (thousands)
Premium										
Flagship . . .	—	—	249,415	81	4,002,451	1,386	486,800	157	1,315,245	496
Flagship . . . .	19,676,989	12,497	10,744,606	6,915	12,244,855	6,013	2,107,969	1,227	2,840,235	1,576
Upper Mid-range . . . . .	3,671,985	3,249	7,247,131	6,399	12,384,232	10,222	1,487,557	1,094	4,800,870	4,281
Mid-range . . . .	16,823,250	24,023	22,390,316	26,781	35,884,356	43,299	6,206,611	6,865	8,861,220	10,991
Entry Level . . .	13,543,186	26,777	8,132,671	15,243	16,047,700	30,490	1,904,915	3,742	5,421,920	11,069
<b>Total . . . . .</b>	<b>53,715,410</b>	<b>66,546</b>	<b>48,764,139</b>	<b>55,419</b>	<b>80,563,594</b>	<b>91,410</b>	<b>12,193,852</b>	<b>13,085</b>	<b>23,239,490</b>	<b>28,413</b>

*(i) Premium Flagship: RMB3,000 and above*

*Mi MIX 2S.* We launched our newest premium flagship smartphone Mi MIX 2S in March 2018. It continues the tradition of this top-of-the-line smartphone product line with a full screen display and curved ceramic body. According to iResearch, we are the first Chinese company to launch

smartphones featuring the latest Qualcomm Snapdragon 845 processor. This device has up to 8GB RAM and 256GB of storage, an AI-powered dual camera with a 1.4µm-pixel sensor, Dual Pixel Autofocus and a number of other cutting-edge technologies. This phone has a built-in AI assistant and supports wireless charging, face unlock, multi-functional NFC and 43 global bands.

*Mi MIX 2.* Introduced in September 2017, Mi MIX 2 is our multiple award-winning smartphone with a full screen display and ceramic unibody, designed in collaboration with Philippe Starck. The phone is powered by a Qualcomm Snapdragon 835 processor and utilizes various cutting-edge technologies for its 5.99" display: Chip-On-Film technology that reduces the bottom bezel size; customized rounded corners that enable a larger field of vision; a customized minimized front camera module; and an ultrasonic proximity sensor for the detection of objects coming close to the screen. As a result, the phone is smaller than the typical smartphone with a 5.5" display.

*Mi 8 Explorer Edition.* Introduced in May 2018, Mi 8 Explorer Edition is the first smartphone in the world that uses pressure-sensitive in-display fingerprint technology. It is also the first Android device in the world that comes with 3D facial unlock function by using an advanced structured light technology to rapidly match measurement points on a user's face while simultaneously cutting down 3D data processing to save power. Mi 8 Explorer Edition's new emoji function allows users to create their own animated emojis based on their facial expressions. It also comes with a stunning transparent glass back panel, showcasing the technology and components inside the device.

(ii) *Flagship: RMB2,000 to RMB2,999*

*Mi 6.* Mi 6 is a flagship smartphone featuring the Qualcomm Snapdragon 835 processor, up to 6GB of RAM, a 5.15" display with eye care display mode, a dual-camera setup, a 3,350mAh battery, and a four-sided curved glass body. The dual-camera setup on Mi 6 comes with wide angle and telephoto lenses, supporting 2x optical zoom and 10x digital zoom. It is also equipped with four-axis OIS, reducing the effect of handshake or motion, and enabling images and videos to remain sharp. Mi 6 was introduced in April 2017.

*Mi Note 3.* Mi Note 3 is a smartphone introduced in September 2017 that features a dual-camera setup with wide angle and telephoto lenses, enabling users to shoot beautiful portraits with bokeh effect. Its large 2µm-pixel sensor enables the front camera to capture light better with less image noise. In addition, Mi Note 3 comes equipped with an AI-based facial recognition unlocking function. Mi Note 3 packs a 3,500mAh battery and a 5.5" display.

*Mi 8.* Mi 8 is our 8th anniversary flagship smartphone and is the first smartphone in the world that adopts dual-frequency GPS and supports both L1 and L5 bands, resulting in much more accurate navigation. Mi 8 represents an unification of aesthetics, ergonomics and quality. It features Qualcomm's flagship Snapdragon 845 processor, a four-sided curved glass back panel, aviation-grade aluminum frame and a 2.5D, 6.21-inch full screen with an 18.7:9 aspect ratio and 86.68% screen-to-body ratio. With a 12MP dual AI camera, Mi 8 elevates the exceptional photography experience delivered by Mi MIX 2S and its sensor score was rated number four worldwide by DxOMark, an international camera benchmark organization. In addition, Mi 8's 20MP camera uses pixel binning technology to combine information from four pixels to create one large 1.8µm pixel for clearer photos in low light.



*(iii) Upper Mid-range: RMB1,300 to RMB1,999*

*Mi Max 2.* Mi Max 2 is a “phablet,” straddling the size format between smartphones and tablets. It features a large 6.44" display and a massive two-day 5,300mAh battery. The large immersive display enables a better media and gaming experience. The split screen mode allows the user to view two different types of content on one screen, such as watching a video while chatting. Mi Max 2 has a full metal unibody and rounded edges for ease of one-hand use. Mi Max 2 was introduced in May 2017.

*Mi 5C.* Mi 5C is our first smartphone powered by Surge S1, an eight-core SoC designed and developed in-house. Surge S1 uses a high-performance ARM Cortex-A53 processor with a so-called big.LITTLE design, incorporating four 2.2GHz cores and four 1.4Ghz cores. Mi 5C features a 5.15" display and weighs only 135g. The large 12MP camera with 1.25µm pixels enables excellent photo quality under low light conditions. Mi 5C was introduced in February 2017. We are one of only four current smartphone companies in the world with the technological expertise to design proprietary smartphone SoCs, according to iResearch.

*Mi 5X/Mi A1.*

Mi 5X is a smartphone featuring a dual camera with wide angle and telephoto lenses. The two lenses allow Mi 5X to calculate and differentiate foreground and background objects, respectively, which creates a depth-of-field effect that typically requires a DSLR camera to achieve and allows users to capture beautiful portrait photos with bokeh effect. Mi 5X features a 5.5" display, all metal unibody design and a large 3,080mAh battery. Mi 5X was introduced in July 2017.

Mi A1 is the global version of Mi 5X that was launched in collaboration with Google. This device features an optical zoom dual-camera setup, and offers exciting functionalities similar to Mi 5X. Mi A1 was first introduced in September 2017 in India and subsequently rolled out to global markets.

*Mi 8 SE.* Mi 8 SE is designed for users who favor a smaller smartphone. With a 5.88-inch Samsung AMOLED full screen display, Mi 8 SE is the first in the world to use Qualcomm’s latest Snapdragon 710 processor, which enhances performance compared to Qualcomm’s Snapdragon 660 processor while saving more than 30% in power consumption.

*(iv) Mid-range: RMB800 to RMB1,299*

*Redmi Note 5/5 Pro.* Redmi Note 5 is a mid-range smartphone featuring flagship-level photography capabilities. With a dual camera equipped with a large 1.4µm-pixel sensor, its AI-based camera features and an LED selfie light on its front camera, Redmi Note 5 is a powerful device that is able to take high-quality photos anywhere at any time. According to iResearch, this phone was the first in the world to feature the Qualcomm Snapdragon 636 processor with 14nm technology. It packs a 18:9 full screen display and a large 4,000mAh battery. Redmi Note 5 was first introduced as Redmi Note 5 Pro in India in February 2018, then released in mainland China as Redmi Note 5 in March 2018.

*Redmi 5 Plus.* Redmi 5 Plus brings our full-screen display innovations to the under-RMB1,000 smartphone. It features a 5.99" display with an 18:9 aspect ratio, a Qualcomm Snapdragon 625 processor and a 4,000mAh battery. Redmi 5 Plus also comes equipped with a camera sporting a large 1.25µm-pixel sensor and soft lighting effect for selfies using its front camera. Redmi 5 Plus was introduced in December 2017.

(v) *Entry level: RMB799 and below*

*Redmi 5/5A.* Redmi 5 and Redmi 5A are accessible smartphones that meet most of our users' daily needs. Redmi 5 features a 5.7" display, a Qualcomm Snapdragon 450 processor and a 3,300mAh battery. Redmi 5A weighs only 137g and sports a 5" screen with eye care display mode, a 13 MP camera, a Qualcomm Snapdragon 425 processor, and dual-SIM slots. Redmi 5 was introduced in December 2017, and Redmi 5A was introduced in October 2017.

*Redmi Note 5A/Redmi Y1.* Redmi Note 5A Prime is a smartphone equipped with a 16MP front camera and an independent selfie light, which simulates the effect of natural light resulting in more beautiful selfies with clearer facial features, brighter skin tone and more expressive eyes. The phone features a 5.5" display, a fingerprint sensor, a Qualcomm Snapdragon 435 processor, and a dedicated microSD card slot in addition to dual-SIM slots. Redmi Note 5A is powered by a Qualcomm Snapdragon 425 processor, has dual-SIM slots and a dedicated microSD card slot. Redmi Note 5A Prime/5A were both introduced in mainland China in August 2017, and they were launched in India as Redmi Y1 Lite and Redmi Y1 in November 2017.

### ***Smart TVs***

We offer a comprehensive selection of smart TVs in different sizes at the best price-to-specification ratio among major comparable products, according to iResearch. Our smart TV products include our premium Mi TV 4, as well as our Mi TV 4A/4C. All of our TVs are equipped with PatchWall, our MIUI-based proprietary AI TV operating system, which understands user preference and can intelligently classify content. In December 2017, our smart TVs on average processed 84 million broadcasts per day. Our smart TVs have shown strong sales volume growth, with 124% and 464% year-over-year growth in 2017 and the first quarter of 2018, respectively. In addition to controlling TV, PatchWall allows users to voice control a myriad of compatible smart-home devices. We also offer Mi Box, a content streaming device and gaming device, with a suggested retail price starting from RMB199. In March 2018, we had approximately 5 million and over 8 million MAUs on our Mi TV and Mi Box, respectively.

According to iResearch, our Mi Box ranked number one in mainland China by unit shipments in 2017, and our smart TVs ranked number two in mainland China by unit shipments in March 2018 and top ten globally by unit shipments in the same month. In addition, during the National Day Golden Week of 2017, four of the top five best-selling TV models sold online in mainland China were from Xiaomi, according to iResearch.



**Mi TV 4**



**Mi TV 4A/4C**

*Mi TV 4.* Mi TV 4 is our 4K HDR smart TV series that comes in three sizes—49", 55" and 65". According to iResearch, Mi TV 4 was the thinnest LED TV in the world at the time of launch, boasting

a highly slim design that measures only 4.9mm, with a frameless display design for a more immersive viewing experience. Featuring a large 4K LED display with support for HDR10 content, Mi TV 4 is able to reflect more details and richer colors. In addition, Mi TV 4 has a dual-speaker setup boasting Dolby and DTS audio for a truly cinematic experience. Suggested Mi TV 4 retail price ranges between RMB3,399 to RMB9,999.

*Mi TV 4A/4C.* Mi TV 4A comes in seven sizes—32", 40", 43", 49", 50", 55" and 65". The 32", 40", 43" and 49" models are equipped with full HD displays, and the 50", 55" and 65" models are equipped with 4K displays. Mi TV 4C is our super-thin bezel smart TV series that comes in two sizes—43" and 55". Both models feature super-thin bezels and a glossy piano-like finish, which greatly enhance the visual effects. Suggested retail price of Mi TV 4A and Mi TV 4C ranges between RMB999 to RMB4,799 and RMB1,599 to RMB2,899, respectively.

### ***Laptops***

We design and develop our laptops with a focus on delivering lightweight, portable products equipped with comprehensive features to offer the best quality and price among all peer products with similar specifications. Our laptop products consist of three lines—Mi Notebook Air, Mi Notebook Pro and Mi Gaming Laptop. Among the latest models, Mi Notebook Air 12.5" starts from RMB3,599, Mi Notebook Air 13.3" starts from RMB4,599, Mi Notebook Pro 15.6" starts from RMB5,599, and Mi Gaming Laptop 15.6" starts from RMB5,999. Our laptops offer the best price-to-specification ratio among major comparable products, according to iResearch.



**Mi Notebook Air**



**Mi Notebook Pro**



**Mi Gaming Laptop**

#### ***Mi Notebook Air***

Mi Notebook Air offers uncompromising performance in an ultra-light package. The Air comes in two sizes—12.5" and 13.3". Both versions are equipped with 1C fast-charging feature. The 12.5" model weighs only 1.07kg and comes with a high-density battery providing up to 9.5 hours of online video playback. The 13.3" model weighs 1.30kg and is equipped with an Intel Core i5 or i7 processor, Intel HD Graphics 620, NVIDIA GeForce 940MX or MX 150 graphics card, up to 8GB RAM, up to 256GB SSD, and a high-density battery providing up to 8 hours of online video playback. Both 12.5" and 13.3" models feature a minimalistic aluminum case, a full-size backlit keyboard, a multi-touch touchpad and a full HD anti-glare screen with wide viewing angles.

#### ***Mi Notebook Pro***

Mi Notebook Pro is a powerful multimedia notebook that weighs less than 2kg. It features the latest Intel Core i5 or i7 CPU, NVIDIA MX150 graphics, a full-size backlit keyboard with 19.5mm of key distance for comfortable typing, an all metal body with magnesium alloy frame for stronger

compression resistance, a 1C fast-charging feature and seven mainstream expansion interfaces. It also features a multi-touch touchpad and a 15.6" full HD anti-glare screen with wide viewing angles.

### *Mi Gaming Laptop*

Equipped with Intel Core i7 processors, Mi Gaming Laptop 15.6" delivers powerful performance for users' work and entertainment needs. It has a minimalist design, along with a keyboard that supports 16 million colors over four zones, and anti-ghosting with 30-key rollover for precise and accurate gaming input. Five programmable keys are located on the left side for quick access to important functions. To enhance performance during particularly long gaming sessions, it is equipped with large heat pipes, a 12V cooling fan and four fan outlets for effective heat dissipation.

### *AI Speakers*

We ranked number one in 2017 and number two in the first quarter of 2018 in mainland China by AI speaker unit shipments, according to iResearch. Our AI speakers feature high-end performance without compromising design and portability, and they offer the best price-to-specification ratio among major comparable products, according to iResearch. Users can connect our voice-controlled AI speakers with our other smart hardware products via Wi-Fi and program customized voice commands. Our AI speakers include two models, Mi AI Speaker at a suggested retail price of RMB299 and Mi AI Speaker Mini at a suggested retail price of RMB169. As such, our AI speakers are the most competitive in terms of price and quality. The prices for other comparable AI speakers are typically in a range of RMB699 to RMB1,000 for Mi AI Speaker and RMB299 for Mi AI Speaker Mini. In December 2017, our AI speakers processed 3.4 million interactions on average per day. In March 2018, our users also spent an average of approximately one hour per day on our AI speakers.



**Mi AI Speaker**



**Mi AI Speaker Mini**

### *Mi AI Speaker*

Mi AI Speaker features our voice-controlled intelligent AI assistant, which currently responds to user commands in Chinese. Mi AI Speaker is a high-quality speaker system that comes with an array of six microphones to detect voice commands from all directions. With voice commands, users can tune in to internet radio stations, enjoy music from streaming services and listen to audio books. Mi AI Speaker also acts as a personal assistant, delivering information such as weather, traffic condition, personal calendar reminders, and the latest news. In addition, Mi AI Speaker serves as a smart home assistant, allowing users to program customized voice commands in order to seamlessly control their smart home devices. Certain "non-smart" home devices can also be controlled by Mi AI Speaker through our products, such as Mi Smart Plug and Mi Smart Power Strip. Users can train the AI assistant to make it a better daily companion through pre-set queries and answers.

Our proprietary voice-controlled AI assistant is also installed in smartphones, Mi TVs and other devices. As of December 31, 2017 and March 31, 2018, we had over 7 million and 23 million devices with our AI assistant installed, respectively. In March 2018, we had over 13 million AI assistant MAU. As of March 31, 2018, our proprietary AI assistant can control 118 product models, including Mi Box, Mi Robot Vacuum Cleaner, Mi Induction Heating Rice Cooker, Mi Air Purifier, Mi Electric Fan and smart lamps.

#### *Mi AI Speaker Mini*

Mi AI Speaker Mini is a mini version of Mi AI Speaker, featuring a voice-controlled, AI-powered digital personal assistant that can be used to control the several products under our smart home lineup. It is a portable assistant with compact design.

#### *Smart Routers*

Our smart routers offer the best price-to-specification ratio among major comparable products, according to iResearch. Current models of our Wi-Fi devices include Mi Router 3 (RMB149), 3C (RMB99), 3G (RMB249), 3A (RMB139), Mi Router Pro (RMB499) and Mi Router HD (RMB1,199).

Mi Router Pro and Mi Router HD are designed to be smart devices that meet all of a household's network needs. They come equipped with 1 or 2 TB hard-drives. Both Pro and HD models feature a metal case for enhanced stability and 4x4 antennas for better wireless coverage. With wireless transmission rates going up to 2,533Mbps and MU-MIMO support, our users can receive stable, high-speed connections even with multiple devices connected simultaneously.

Mi Router 3, 3C, 3G and 3A are easy-to-use Wi-Fi routers that ensure a stable wireless network experience. Mi Router 3 features 128MB of ROM and 128MB of memory. Mi Router 3A features enhanced antennas. Mi Router 3G features a dual-core processor, 128MB of ROM, 256MB of memory and a USB 3.0 port. All four models are equipped with four antennas and can be controlled via the Mi Wi-Fi app. The powerful Mi Wi-Fi app features rich functionalities, such as enhanced network security and parental control.

#### *Products Produced in Collaboration with Our Ecosystem Partners*

We work with our ecosystem partners to design and develop a rich portfolio of smart hardware products. We meet our users' daily needs with products integrated through our internet platform in order to provide them with a digital lifestyle. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high quality, aesthetically pleasing designs, user-oriented features and price accessibility.

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The following table sets forth a sample comparison of the prices of our selected products against those of our major competitors:

<u>Selected Products</u>	<u>Suggested Price Range (RMB)</u>	<u>Indicative Price Range of Major Competitors (RMB)</u>
Air purifiers .....	379 – 1,999	2,000 – 10,000
Mi Band 2 .....	149	299 – 699
Robot vacuum cleaner .....	1,699	3,000 – 8,000
Water purifier .....	1,499 – 1,999	3,000 – 4,000
Suitcase .....	299 – 1,999	299 – 5,000
Induction heating rice cookers .....	399 – 999	3,000 – 6,000
Laser projector .....	9,999	29,999 – 132,000
Folding electric bicycle .....	2,999	6,999 – 8,999
Drone .....	2,999	4,000 – 7,000

To facilitate the integration of hardware products with our Mi Home app and IoT platforms, we provide our ecosystem partners with hardware and software modules that could be seamlessly integrated into their devices. Instead of requiring our partners to invest significant resources in developing sophisticated integration software, our ecosystem partners can leverage our prepackaged modules with such software and only need to develop their communication protocols. We have robust safety standards to protect our internet and IoT platforms in respect of the integration of our modules with hardware products.

Our products produced in collaboration with our ecosystem partners are primarily divided into three categories, including mobile peripherals, smart devices and lifestyle products.

### ***Selected Mobile Peripheral Products***

#### *Power Bank*

We were number one in terms of power bank unit shipments globally in 2017 and in the first quarter of 2018, respectively, according to iResearch. Our Mi Power Bank comes in various capacities, such as 20,000mAh, 10,000mAh and 5,000mAh. For example, the 10,000mAh Mi Power Bank Pro is sleek and slim, and supports Type-C charging and two-way fast charging. It is able to fully charge a 3000mAh smartphone 2.4 times in a single charge.

#### *Headphones*

We offer four models of classic in-ear headphones priced from RMB29 to RMB149, three models of Bluetooth in-ear headphones priced from RMB59 to RMB169, one model of noise-canceling in-ear headphones priced at RMB299 and two models of over-ear headphones priced at RMB199 and RMB499. All these headphones offer superior sound quality, aesthetically pleasing design and comfortable wearing experience.

### ***Selected Smart Hardware Products***

#### *Air Purifiers*

We were number one in terms of air purifier unit shipments globally in 2017 and in the first quarter of 2018, respectively, according to iResearch. Since the launch of our air purifiers, we were number one in terms of unit shipments in mainland China each year, according to iResearch. In

December 2017, our air purifiers cleaned 1.5 billion cubic meters on average per day. During the annual Singles' Day shopping festival in 2017, our air purifiers were number one in terms of unit shipments in the air purifier category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch. The current models of the air purifiers supplied by our ecosystem partners include Mi Air Purifier 2 (RMB699), 2S (RMB899), Pro (RMB1,499), MAX (RMB1,999) and Mi Car Air Purifier (RMB379).

Mi Air Purifier 2 has a compact design with a single motor and a dual fan design. It has a CADR (Clean Air Delivery Rate) of 310m<sup>3</sup>/h and is suitable for an area of 21m<sup>2</sup> to 37m<sup>2</sup>. Mi Air Purifier 2S is a premium model that features an OLED display showing PM2.5 level, temperature and humidity, as well as a laser sensor which assists in accurate detection of particles as small as 0.3µm in size. Mi Air Purifier Pro features an OLED display and an optimized air flow path and pressure system. It is capable of 500m<sup>3</sup>/h CADR covering an indoor area of 60m<sup>2</sup>. Mi Air Purifier MAX uses a dual-inlet system designed with increased area for airflow, resulting in more powerful performance and is capable of 1,000m<sup>3</sup>/h clean air delivery rate for an indoor area of up to 120m<sup>2</sup>. All of these air purifiers can be connected via Wi-Fi to the Mi Home app.

Mi Car Air Purifier is designed specifically for in-car use. It has a CADR of 60m<sup>3</sup>/h, which purifies the air in a normal car of about 3m<sup>3</sup> in approximately three minutes. It supports smartphone control via Bluetooth.

#### *Fitness Band*

We were number one in mainland China and number two globally by fitness band unit shipments in 2017 and in the first quarter of 2018, respectively, according to iResearch. Our fitness bands recorded 37 billion steps on average per day in December 2017. Our Mi Band 2 is a smart fitness band with an OLED display and tracks a wide range of biometrics data, such as steps, heart rate, sleep duration and quality. It gently nudges the wearer to take a break when he or she has been sitting still for too long. The band also synchronizes with the "Mi Fit" mobile app to allow users to monitor their running speed and heart rate in real time and to evaluate their sleep quality. In addition, it features vibrating alerts for incoming calls, texts and alarms and allows users to unlock an Android smartphone instantly without any passcode or fingerprint. Mi Band 2's high-density lithium-polymer battery could generally last more than 20 days on one charge under standard use.

#### *Robot Vacuum Cleaner*

In December 2017, our robot vacuum cleaner, Mi Robot Vacuum, cleaned 7.9 million square meters on average per day. Mi Robot Vacuum is an acclaimed and highly intelligent robot priced at RMB1,699. With a Laser Distance Sensor (LDS), Mi Robot Vacuum is able to scan its surroundings 360 degrees 1,800 times per second. By employing a Simultaneous Localization and Mapping (SLAM) algorithm, Mi Robot Vacuum is able to map out how the home is laid out and calculate the best cleaning path. Equipped with 12 sensors and a host of advanced features, Mi Robot Vacuum cleans homes in a smart and efficient way. Integrated with the Mi Home app, it allows users to switch on and control Mi Robot Vacuum remotely and set regular cleaning schedules.

#### *Scooter/Self-balancing Scooter*

We shipped the most electric scooters globally in 2017 and in the first quarter of 2018, according to iResearch. During the annual Singles' Day shopping festival in 2017, Ninebot Plus was

number one in terms of unit shipments in the self-balancing scooter category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch.

Mi Electric Scooter has an award-winning design and is easy to master. It has a travel range of 30 kilometers on a single charge and weighs approximately 12.5 kilograms, and comes with features such as LED headlight and regenerative braking. Users can control Mi Electric Scooters via our Mi Home app.

Ninebot Mini, a self-balancing scooter, has a travel range of 22 kilometers on a single charge with a maximum speed of 16 kilometers per hour. It can go uphill on slopes up to 15 degrees and support up to a load of 85 kilograms. When “locked” mode is activated, the scooter will raise an alarm to notify the owner if the scooter is being moved. Ninebot Plus is an upgraded version of Ninebot Mini equipped with a strengthened magnesium alloy chassis, and is able to support a load of up to 100 kilograms, with a travel range of 35 kilometers on a single charge. It comes with a remote control that allows users to control its movement conveniently without using a smartphone within a distance of 20 meters. Ninebot Mini and Mi Ninebot Plus can be controlled by our Mi Home app.

#### *Water Purifier*

Our water purifiers filtered eight million glasses of water on average per day in December 2017. During the annual Singles’ Day shopping festival in 2017, our Mi Water Purifier was number one in terms of unit shipments volume in the water purifier category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch. Mi Water Purifier is a well-designed water purifier featuring reverse osmosis (RO) technology, which applies pressure through a RO membrane to separate purified water from tap water. It employs a four-step RO filtration process before ultimately resulting in clean purified water. With a 400-gallon high flow RO filter and an optimized water purification path that improves filtration efficiency, Mi Water Purifier is able to empower higher rate of water flow. Mi Water Purifier can be monitored via the Mi Home app, allowing users to check real-time filter effectiveness and be reminded to change filters. Users can purchase new filters simply by placing orders via the Mi Home app. Mi Water Purifiers are designed to allow users to change filters intuitively and easily.

#### *Induction Heating Rice Cookers*

Our smart induction heating rice cookers come in three variants, including 3L, 4L and the Mi Induction Heating Pressure Rice Cooker. The Mi Induction Heating Pressure Rice Cooker employs a magnetic relief valve to precisely control the pressure inside the rice cooker to 1.2 times the atmospheric pressure, corresponding to an ideal boiling point of water at 105 degrees Celsius, which results in tastier rice. It also uses electromagnetic heating technology for higher thermal efficiency. To ensure even heating and strong thermal performance, it features a gray cast iron surface that has undergone a 69-step crafting process. Mi Induction Heating Pressure Rice Cooker is priced at RMB999.

#### *Home Security Camera*

Our current models of home security cameras include Mi Home Security Camera 360° (RMB199), Mi 360° Webcam (RMB399) and Mi Home Security Camera (RMB199).

These home security cameras offer 720P or 1080P high resolution and internet connectivity for long-distance, real-time monitoring through the Mi Home app.



### *Laser Projector*

Mi Laser Projector can project a screen as large as 150 inches and uses an ultra-short focal lens design to avoid the inconvenience of the long-distance projection needed by traditional projectors. It can be situated 5 to 50 centimeters away from the display surface, and has a high contrast ratio of 3,000:1 as well as a luminosity of 5,000 lumens. The high-tech Mi Laser Projector, powered by PatchWall, uses a compact and minimal “box” design, and comes with a built-in high quality sound system. Users can enjoy the private theater effect at home. Suggested retail price of Mi Laser Projector is RMB9,999.

### *Lifestyle Products*

We offer high-quality and well-designed lifestyle products, including housewares and personal accessories, from our ecosystem partners through our new retail platform. These lifestyle product offerings reinforce our brand image and bring additional traffic to our platform. We carefully source and select the lifestyle products by upholding the same standards that we apply to our brand series products. These selected lifestyle products are meticulously designed and crafted with attention to detail. For example, the Mi 90 Minutes Spinner Wheel Suitcase inherits the Xiaomi minimalist design but comes with great resistance to shocks and falls because of the highly durable polycarbonates (PC) material used. Wheels on this suitcase are made out of thermoplastic elastomers (TPE) material, which makes them shockproof, elastic, and very quiet. During the annual Singles’ Day shopping festival in 2017, this suitcase was number one in terms of unit shipments in the suitcase category on Tmall, according to iResearch.

### *IoT Developer Platform*

Launched in November 2017, our IoT developer platform has enabled over 580 developers to access our platform as of March 31, 2018. Our IoT developer platform is open to not only our ecosystem partners but also to other developers who desire to connect their devices with other devices connected to our platform and ultimately reach more users through us. A developer can submit its application for connecting a device to our platform for free through our IoT developer online platform at any stage of the device’s life cycle. Once a developer’s device has completed our quality and compatibility test, the developer is able to enjoy our fully managed and integrated support and services as well as a wide range of basic and advanced developing capabilities, such as hardware connection, IoT modules, cloud platform and storage, app remote control, voice control and content sharing.

### *Value Proposition to Ecosystem partners*

*Minority capital investment.* We invest in the success of our ecosystem partners by providing early stage capital support and obtain minority equity interests in these partners.

*Incubation support.* We provide incubation support, including human resources and other administrative support and assistance to our ecosystem partners in their early stages of development.

*Product design and development support.* We bring our renowned industrial design prowess and technological expertise to the development of ecosystem hardware products and require our partners to follow our strict design and quality protocol and standards for products associated with our brands.

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*Supply chain management support.* Through our know-how and our relationships with raw materials and component suppliers, we assist our partners in securing quality materials on preferential terms. Furthermore, we share our expertise in operational efficiency with our partners to help them manage their production-related costs.

*Brand, marketing and retail support.* Through our brand recognition and efficient new retail platform, we consistently offer highly popular IoT and lifestyle products to our users at accessible price points, thereby raising the profile, industry standing and sales volume of our ecosystem partners.

### New Retail

Through our new retail strategy, we closely integrate online and offline sales channels to minimize layers of middlemen, achieve greater efficiency and provide the same products at the same accessible price points to our users. The following table sets out our various distribution channels and their respective revenue contribution from our smartphones and IoT and lifestyle products segments during the Track Record Period:

Distribution Channel	For the year ended December 31,						For the three months ended March 31,	
	2015		2016		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)							
<b>Online:</b>								
Direct <sup>(1)</sup> . . . . .	43,019,390	68.9	25,865,166	42.3	29,231,710	28.1	8,126,490	26.3
Distributors <sup>(2)</sup> . . . . .	10,997,964	17.6	20,113,009	32.9	38,422,430	36.9	9,588,489	31.0
<b>Offline:</b>								
Direct <sup>(3)</sup> . . . . .	361,429	0.6	1,660,126	2.7	5,413,525	5.2	2,516,412	8.1
Distributors <sup>(4)</sup> . . . . .	8,027,190	12.9	13,541,276	22.1	30,943,752	29.8	10,704,665	34.6
<b>Total</b> . . . . .	<u>62,405,973</u>	<u>100.0</u>	<u>61,179,577</u>	<u>100.0</u>	<u>104,011,417</u>	<u>100.0</u>	<u>30,936,056</u>	<u>100.0</u>

*Notes:*

- (1) Our online direct channels primarily include our Mi Store, our Youpin platform and our flagship store on Tmall.
- (2) Our online distributors primarily are our third-party online distribution partners.
- (3) Our offline direct channels primarily are our Mi Homes.
- (4) Our offline distributors primarily are our third-party distribution partners.

Our change in distribution channel mix from 2015 to 2017 reflects our investment in strengthening our distributor partnerships. Our framework contracts with distributors typically do not contain binding minimum purchase requirements. For domestic distributors, our framework agreements generally do not impose sales targets. We set sales expectations for our domestic distributors that we communicate with them from time to time but there is no consequence if such sales expectations are not met. For international distributors, most of our framework contracts contain a monthly or an annual purchase target that sets out the minimum purchase amount for the applicable distributor. We have the right to terminate the contract with an international distributor if such international distributor fails to meet the specified purchase target. The purchase target imposed on each international distributor varies depending on a number of factors, including the amount agreed with the applicable distributor and its demand for our products. We do not provide warranty stock to our domestic distributors. We only provide warranty stock to international distributors in jurisdictions in which we do not directly provide after-sales services. For such international distributors, (i) in terms of smartphones, we generally provide 2% warranty stock as one year warranty to the distributors, and (ii) in terms of other hardware products, we generally provide 2% of spare parts in terms of sales volume, which shall not be delivered but shall be deducted from the sale price offered to distributors.

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In order to mitigate potential cannibalization among our distributors, (i) we do not allow distributors to return products to us unless they are defective according to relevant laws and regulations, (ii) we utilize our proprietary technology system to monitor the sales activities of our distributors, and (iii) we require distributors to periodically provide us with sales reports so that we can monitor their sales activities in a timely manner.

### *Online*

Our smartphones ranked first in terms of online smartphone unit shipments in both mainland China and India in the first quarter of 2018, according to IDC. Leveraging our online expertise, we reach a wide group of customers across the entire e-commerce space in mainland China, in particular through our Mi Store and Youpin platforms. In 2017, we were number one on Tmall in terms of unit shipments across over 20 categories of products during Tmall's Annual Singles' Day shopping festival, according to iResearch.

During the first few years of our operations, we exclusively sold our products through our self-owned online distribution channels. Capitalizing on the growing trend of e-commerce and its distribution efficiency, we expanded our online distribution channels through cooperation with leading third-party online e-commerce partners to capture more customers. As a result, we believe we have established a strong online retail presence in our core markets. Our online approach provides significant advantages, including lower distribution costs.

#### *Direct Online Retail*

Currently our direct online retail channels include our Mi Store, our Youpin platform and our flagship store on Tmall, all of which enable us to efficiently sell our products and services to our customers at accessible price points.

#### *Mi Store*

Mi Store, available in mobile app and *Mi.com*, offers the full line-up of our products directly to our users. In mainland China, India and certain selected international markets, users can purchase our products directly from local Mi Store apps and websites. For other international markets, Mi Store serves as the centralized platform for users to learn about our products and services. Mi Store creates a curated shopping experience for our users through personalized product recommendations and insightful product descriptions. Our online flagship store on Tmall was number one in terms of sales among brand flagship stores during Tmall's Annual Singles' Day shopping festival for five consecutive years from 2013 to 2017, according to iResearch.

Our Mi Store mobile app allows customers to quickly and efficiently discover, review, select and purchase our products. We strive to provide customers with a customized shopping experience through analyzing and understanding their transaction histories and browsing patterns on our mobile apps in order to increase customer stickiness and enhance cross-selling opportunities. We continuously develop additional features to enhance user experience. For example, we allow customers to add a new address via verbal inputs, and the system intelligently selects and matches the correct address from its database, saving customers time.

#### *Youpin*

Youpin is an e-commerce marketplace that we created not only to sell our Mi-branded products but also to sell high-quality products that are not associated with Xiaomi but curated and sourced by

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us. In the first quarter of 2018, there were over 2,700 SKUs sold on Youpin. Youpin’s e-commerce platform complements our existing business model by offering a wider set of popular high-quality products. Youpin, which includes the Youpin mobile app and the Youpin.mi.com website, stands for good taste and premium quality, which is also the Chinese meaning of the name.

We distinguish ourselves from other e-commerce players through our careful selection of a limited set of SKUs within each category, focusing on products that can become “killer products.” The platform currently offers more than 15 categories, including home, transportation, electronics, entertainment, apparel, sporting goods and personal care. We have strict requirements and high standards for all merchandise listed on Youpin. We offer our customers an experience of unique brand identity, premium quality and high value, as well as a simple sleek look that shares a similar design philosophy to our own brand series products. Youpin product placement is acknowledged as a validation of quality and style. As a result, our merchants know that placing products on Youpin will improve brand recognition and likely increase sales.

### *Third-party Online Distribution Partners*

We sell our products through a global online distribution network comprising of third-party e-commerce partners. In mainland China, we cooperate with major e-commerce players such as JD.com and Suning.com, who directly purchase our products and subsequently distribute the products to end users. In India and the rest of the world, the third-party e-commerce marketplaces on which our products are sold primarily include Flipkart, TVS Electronics and Amazon. We believe that the online distribution of our products through these leading e-commerce players enables us to take advantage of their established customer base and brand recognition and helps us reach a wide group of customers in a variety of global markets.

We typically enter into a non-exclusive framework agreement with each online distribution partner, and receive orders from them on a regular basis and deliver our products within our committed timeline. Pursuant to the framework agreements, our distribution partners are not allowed to return our products unless they are defective according to the relevant laws of the mainland China or other applicable laws. The framework agreements typically have a term of one year and can be renewed by the parties upon mutual agreement.

The following table sets forth the changes in the number of our online distributors for the periods indicated:

	For the year ended December 31,			For the three months ended
	2015	2016	2017	March 31, 2018
As of the beginning of the period . . . . .	36	58	90	109
Addition of new online distributors . . . . .	23	37	40	15
Number of online distributors terminated during the period . . . . .	1	5	21	25
Net increase/(decrease) in online distributors . . . . .	22	32	19	(10)
As of the end of the period . . . . .	58	90	109	99

The increase of our online distributors during the Track Record Period was attributable to the expansion of our business.

### *Offline*

For offline, we primarily sell our products through our own retail stores, Mi Homes, directly to our users and through a third-party distribution network comprising of (i) cellular network carriers in mainland China, (ii) retail chains and local authorized stores in mainland China, and (iii) international distributors, including wholesale distributors, cellular network carriers, and authorized stores. As a key part of our offline retail strategy, we endeavor to work with no more than one distribution intermediary to ensure distribution efficiency, competitive retail pricing and great user experience.

#### *Direct Offline Retail*

As an integral part of our new retail strategy and to ensure a consistent satisfactory shopping experience for our products, we have built a large network of offline retail stores called Mi Homes, primarily in mainland China and India. In mainland China, our Mi Homes footprint covers substantially all provinces and municipalities. As of March 31, 2018, we had 331 Mi Homes in mainland China. We typically operate our Mi Homes in large cities in mainland China.

Our Mi Homes are typically located at high-traffic locations in quality shopping malls and urban shopping districts. The stores are designed to enhance the presentation and marketing of our products and services. Our in-store personnel are well-trained and knowledgeable on our products. Also, we believe that direct interaction with our targeted customers is an effective way to demonstrate the advantages of our products. To enhance customer experience and our operational efficiency, we do not incentivize or encourage our in-store personnel to promote our products or services to potential customers in an unsolicited manner. In 2017, our self-operated Mi Homes generated the second highest average sales per square meter among retail store chains globally, according to iResearch.

#### *Third-Party Offline Distribution Network*

We distribute our products through cellular network carriers in mainland China, including China Mobile, China Unicom and China Telecom. Pursuant to our distribution agreements with cellular network carriers, a given cellular network carrier is only allowed to distribute our products within the geographic region specified in the agreement at prices specified in the agreement. Our partner cellular network carriers are not allowed to return our products unless they are defective according to the relevant laws of mainland China.

In addition, we collaborate with consumer electronics retail chains and local authorized stores to distribute our products. Our retail chain partners include leading national brands and regional players, and we typically enter into a non-exclusive framework agreement with each retailer and sell our products to retailers on a per-order basis. To further penetrate lower-tier cities and rural areas in mainland China and India, we enter into exclusive framework agreements with local authorized stores called “Mi Preferred Partners” to distribute our products.

We do not commit to repurchase our products from the retailers or local authorized store owners. We recommend a minimum price on the resale of our products. Our retailers and local authorized store partners are our customers rather than agents, because once we have sold and delivered our products to them, they bear the risks of damage and obsolescence and they may not return the products unless they are defective according to the relevant applicable laws. The framework agreements typically have a term of one year.

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For selected international markets, our wholesale distribution partners distribute our products to other sub-distributors and retailers only within certain designated territories, and those sub-distributors and retailers will subsequently sell our products to end users. Our wholesale distributors are typically specialized in the distribution of smart hardware and operate well-established local distribution networks. We typically enter into a non-exclusive framework agreement with each distributor and sell our products to them on a per-order basis. In addition, we authorize third parties in selected international markets to exclusively sell our products in their physical stores. We control the interior design of our authorized stores to ensure consistent brand presentation, which enhances our brand awareness in global markets, and we provide our authorized store partners with sales and service guidelines to ensure satisfactory customer experience. Pursuant to our framework agreements with international distributors, including wholesale distributors and authorized store partners, we do not grant our distributors any right of return, and we do not have any obligation to repurchase our products from the distributors in any event.

We recommend a minimum price on the resale of our products. We generally have the right to unilaterally terminate the framework agreements if the distributors fail to meet the purchase targets set forth in the framework agreements. Our framework agreements with distributors typically have an initial period of one year and are automatically renewed for increments of one year unless, upon expiration, any party terminates the agreement.

The following table sets forth the changes in the number of our offline distributors in both mainland China and the rest of the world for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
As of the beginning of the period .....	24	93	299	1,103
Addition of new offline distributors .....	70	231	920	680
Number of offline distributors terminated during the period .....	1	25	116	190
Net increase in offline distributors .....	69	206	804	490
As of the end of the period .....	93	299	1,103	1,593

### Internet Services

Given our vast, diverse and highly engaged user base, we are well positioned to broaden our services. Since our inception, we have focused on improving the integration of our products and internet services and the connectivity between our devices in order to provide a better user experience. As a result, we have achieved a high level of user engagement and retention. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. In addition, we have a proven ability to develop killer apps. In March 2018, we had 38 apps with more than 10 million MAU and 18 apps with more than 50 million MAUs, including Mi App Store, Mi Browser, Mi Music and Mi Video. The apps we developed ranked number one in many categories in terms of MAU on our smartphones, including browser, music, video, literature and security in mainland China in March 2018. In March 2018, over 20% of the total time spent on our smartphones by our users was on apps we developed. In addition to MIUI, we also provide internet services to users on other operating systems. These services include Mi Store, Youpin, Mi Home and Mi Fit. By offering these internet services, we expand our user base and enrich our entire ecosystem.

***MIUI***

MIUI is our proprietary operating system built on the Android kernel, which fully embraces and is compatible with the Android ecosystem. All Android apps are compatible with MIUI.

We developed the first version of MIUI based on the Android operating system in 2010 with significant customization and localization to adapt to consumers' user habits. Since then, MIUI has achieved high popularity among users attributable to its intuitive, fast and stable features. Over the past eight years, we made beta versions available to users every week to gather feedback and recommendations ahead of stable version updates, based on which we analyze and improve the system and have developed numerous features and optimizations to enhance its basic framework, usability and user experience. As a result, MIUI has attracted a massive user base with active user engagement. For example, on average over 65% of our users upgraded to the stable version of MIUI 9, our latest operating system, within four months after the launch of the stable version in each respective phone model.

MIUI supports a comprehensive suite of functionalities for our smartphones and provides a wide array of customized services to our users and developers to address their needs. For example, Mi Push is a stable, reliable and efficient notification service that provides a system-level message notification solution for users and developers not only on MIUI but also on other Android- and iOS-based platforms. As of the Latest Practicable Date, Mi Push has provided services to almost all of the popular apps in mainland China, and Mi Push ranked number one among all Android push service providers in mainland China in terms of the number of devices that utilized push service in 2017 and in the first quarter of 2018, respectively, according to iResearch. In March 2018, there were approximately 950 million devices that utilized our Mi Push service. These devices include smartphones across all platforms, laptops, Mi TV and Mi Box. For a detailed discussion of our software engineering, including MIUI development process, please see “—Research and Development—Software Engineering.” MIUI and its development efforts reflect our passion to continuously improving user experience and our sincerity with our users.

MIUI has the following key features and innovations:

- *System optimization.* MIUI is optimized on all levels to ensure optimum performance on our smartphones. We enhance system stability and speed and lower power consumption through various measures, including launch speed boost, dynamic resource allocation, critical background acceleration, core congestion control and automatic cache clearing. As a result, MIUI is fast and smooth.
- *Superior interface and user experience.* MIUI has a number of features enabling superior usability and experience. For example, MIUI's system icons are animated to signify actions. Users can run two apps simultaneously on the same screen, and can adjust the screen space for each app. MIUI's home screen is highly customizable, with simple actions to rearrange icons, add widgets and uninstall apps. The notification shade presents information in a concise and comprehensive way by grouping all notifications by app to reduce clutter.
- *Mi Portal.* MIUI leverages our AI capabilities to offer a function that allows users to obtain extensive information under multiple scenarios, such as film reviews, encyclopedias and maps, simply by pressing any text area instead of having to leave the app currently used by the user.

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- *Spam killer.* Spam killer automatically identifies and blocks all types of unwanted spam calls and text messages.
- *Mi Mover.* When users switch to one of our new smartphones, Mi Mover quickly pairs the two devices and helps the user to securely transfer all the contents of the old smartphone to the new with one click.
- *Dual apps.* Users can create and sign into dual accounts for any app, including WeChat, Facebook and more, an important feature unavailable on iOS or Android.
- *Second space.* Users can use different passcodes or fingerprints to access different profiles, each with its own wallpaper, apps, files and photos, creating separate spaces for work and leisure.
- *Mi Drop.* Mi Drop allows seamless transfer of files between devices using Bluetooth, without requiring an internet connection.
- *Yellow Pages.* Yellow Pages provides our users with information on incoming calls by identifying specific business callers and categorizing other callers based on tags made by other users. It also provides our users with additional information on such business phone numbers, such as address and links to official websites and official Weibo accounts of such businesses.
- *International roaming virtual SIM card.* Users can enjoy convenient data network services during international travel by conveniently purchasing virtual SIM cards through MIUI.
- *Universal remote control.* Mi Remote gives users the ability to control TVs, air conditioners, and a host of other appliances with smartphones.

All of our smartphones have pre-installed MIUI, and users of other smartphones with the Android operating system can install MIUI on their devices for free. MIUI pre-installed on our smartphones shipped internationally may vary from our domestic versions, with system framework, design and customization catered to the local markets.

### ***Mi Cloud***

Mi Cloud is our cloud storage and cloud computing service that provides users with a one-stop solution to address the needs of personal data storage and backup. Seamlessly integrated with our products such as our smartphones, Mi Cloud offers a comprehensive and convenient storage service for user data, including data in a user's contacts, messages, photos, videos and documents. Mi Cloud synchronizes each individual user's data on different devices and keeps the data updated across all devices through a unified online account. Any changes to the stored data are automatically synchronized regardless of the device on which the change is made, making data migration easier. Mi Cloud backs up scalable user data automatically when a device is connected to Wi-Fi, and it possesses a broad set of features that enable multiple devices to operate faster, more securely, and save substantial costs. Mi Cloud offers 5GB of free space under a regular user plan. Users can upgrade the plan to Mi Cloud VIP storage plans with an additional 20GB, 100GB or 1024GB of storage space and other additional privileges by paying a yearly fee.

### ***Mi App Store***

Mi App Store is our distribution platform for Android-based mobile apps. In March 2018, over 85% of apps installed on our smartphones for the first time were downloaded through our Mi App



Store. Mi App Store allows users to browse, search and obtain various mobile applications for mobile devices, and through these applications access the mobile internet on a secure and user-friendly platform. Through various apps, users can conveniently obtain internet content such as video, music, games and e-books. We leverage our proprietary development skills and technologies and have established strong relationships with app developers and content providers to provide a large quantity of mobile apps and other content on our Mi App Store.

### ***Mi Browser***

Our Mi Browser provides our users with a fast and secure browsing experience. Mi Browser can automatically block malicious websites, identify them among search results and scan files downloaded through the browser for security threats. Mi Browser also offers a “private browsing” option to allow users to surf the internet without leaving historical access records. Mi Browser features user-friendly user interface and functions. For example, users can store their bookmarks on our Mi Cloud and access the bookmarks whenever they want and wherever they are through a mobile device. Also, Mi Browser offers password managers to help users easily access multiple personal accounts on different online services through a secure cloud-based system.

### ***Mi Security***

Mi Security is an internet security application that we offer our users for free. It incorporates anti-virus, anti-malware, anti-phishing, malicious website blocking and secure online shopping functions in a single lightweight installation package and leverages the power of our cloud-based data analytics engines to protect our users against security threats and malicious applications. The app can perform periodic or on-demand scan of program files on our users’ devices and test them against our cloud-based security threats database.

### ***Mi Game Center***

As of March 31, 2018, Mi Game Center features over 30,000 games spanning all major categories, including leisure, action and adventure, role-playing and strategy. We seek to cooperate with leading game producers as well as individual developers to provide our users with the broadest selection of games. Users can find the latest action blockbusters as well as popular leisure games. We customize the display of the homepage and ranking of the games based a variety of factors, including each user’s individual taste and preference by leveraging our big data analytics capabilities. Therefore, users get a curated selection of games and individualized gaming experience. In addition, we offer live streaming services designed for gamers to create, share and discover a broad range of mobile game-related content. Users can interact with live streaming hosts by commenting on the content or by sending virtual gifts.

### ***Mi Video***

Mi Video is our main video content distribution platform on smartphones, with content sourced from third parties. We have been ramping up and diversifying our content library to make premier content available to our users, achieved through partnership with major content providers. Mi Video is a one-stop portal for users to access both trending and recommended content. Leveraging our big data analytics, we analyze user browsing behavior to understand their tastes and preference, and dynamically update the content shown on the home page to offer users with the most desirable content. Our interface offers comprehensive viewing functions designed to enhance user experience. Our

membership services generally provide paid subscribing members with a superior entertainment experience that is embodied in various membership privileges. According to iResearch, Mi Video ranked number four overall in mainland China in terms of average MAUs and ranked number one in the video aggregation category in terms of average MAUs in 2017 and in the first quarter of 2018.

### ***Mi Music***

Our music distribution platform features large selections from popular artists and albums sourced from third parties. Our users have access to a vast array of music from both popular Chinese and international artists. Our music library spans across all major music genres such as pop, R&B, classical and traditional Chinese. We also offer podcasts and talk shows that users can subscribe to. Mi Music caters to diverse listening needs through improved search functions and AI-enabled personalized recommendations. We suggest playlists based on a variety of factors, including users' previous music selections and listening habits, time of the year or holidays and location. While our music streaming services are generally free to users, we offer VIP packages for a fee to users who prefer high-quality music formats or downloading certain music. According to iResearch, Mi Music ranked number one among all music apps offered by smartphone makers in mainland China in terms of average MAUs in 2017 and in the first quarter of 2018, respectively.

### ***Duokan Reading***

Duokan Reading is a digital reading platform that provides readers with easy access to our vast and diverse third-party content library. We strive to provide our users with the broadest and highest quality original online literary content. The library of Duokan Reading includes literary works spanning a variety of genres, such as fantasy, martial arts, science fiction, mystery and romance.

### ***Mi Live***

Mi Live is an interactive and comprehensive platform offering online entertainment live streaming services. Users of Mi Live can enjoy live streaming services and content in various channels. Currently, the most popular channel topics on Mi Live include music, talk shows, finance, games and online literature. Mi Live comes with catalogs grouped by topics and common interests and is searchable by keyword, which enables users to navigate and explore channels easily. Within each group, channels are then ranked in terms of popularity. In addition, Mi Live supports interesting features such as customized filters and lenses as well as virtual gifts and associated special effects, some of which are enabled by facial recognition and augmented reality technology. Mi Live also provides functions for users to post and share messages, photos and short messages with other users on Mi Live.

### ***Our finance related business***

We commenced our internet finance business in 2015. Since then, we have developed innovative financial products and internet payment platforms to meet our users' diverse financial goals. Our loan products include installment purchase loans, which allow users to finance purchases of our hardware, and consumer loans, which allow users to satisfy their other financial needs. We distributed our loan products mainly through our Xiaomi Finance, Xiaomi Wallet and Xiaomi Loans mobile apps. In addition to our loan products, Xiaomi Wallet has mobile wallet and payment functions such as money transfer and bill payment functions. We co-founded the third internet bank in mainland China in December 2016 and hold a minority equity interest.

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We have a highly advanced and customized credit assessment and risk management approach, built on our massive and diverse user database. We analyze data of users accumulated through the everyday use of our products and services, assess their credit risk through our proprietary risk assessment model, and pre-approve a user for a certain amount of credit based on the credit assessment result. We obtain prior consent from our users to collect their personal data before we use their data. We have a strict company-wide policy that protects the confidentiality of user data and have taken technical measures to ensure the security of users' personal data to prevent personal data from being misappropriated, divulged, damaged or lost.

We expect to focus on continuing to develop the following finance related business:

- **Supply chain financing business.** The supply chain financing business leverages the upstream and downstream supply chain of our Group and offers quality customers with factoring services and other innovative trade finance and working capital solutions. We believe that there is significant market demand for such services and favorable government policies that are conducive to the growth of such business. In addition, introducing such financing may help develop a healthier and more financially robust supply chain for our Group, leading to greater efficiency, reliability and certainty of supply.
- **Internet micro-financing business.** We provide online micro-financing products, particularly installment loans with a point of sale or purchase scene and a specified usage, to quality consumers through our internet platform. We will continue to develop and optimize our big data risk management platform leveraging the user base across our ecosystem, user data analytics and behavior modeling. We may also launch product leasing services in connection with our smartphones and other smart hardware products. We also intend to develop our capability in the financial technology of providing comprehensive borrower credit assessment support services and other relevant analytics to financial institutions to enhance their risk management.

As of December 31, 2015, 2016 and 2017 and March 31, 2018, the aggregate outstanding amount of micro loans advanced to our customers was approximately RMB102.0 million, RMB1,613.3 million, RMB8,418.2 million and RMB8,479.1 million, respectively. The table below summarizes the details of our micro loans advanced to customers during the Track Record Period:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
Average loan amount (RMB) .....	1,500	2,300	3,600	4,000
Average loan tenor (months) .....	6.05	7.59	8.16	8.81
Average annualized lending rate (%) .....	18	17	17	16

- **Payment services.** We will expand our online and offline payment services that will seamlessly integrate into our ecosystem to facilitate payment transactions with our users. We will also increase our commitment in research and development with a view to ensuring that our payment services will remain efficient, safe and secure.
- **Wealth management products distribution.** We market quality wealth management products of reputable financial institutions through our apps. We will enhance our screening of such products to ensure only those that are compliant with applicable laws and regulations will be marketed to consumers through us.

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We have undertaken the XMF Restructuring, pursuant to which our finance related business became held under Xiaomi Finance (see “History, Reorganization and Corporate Structure—Restructuring of Our Finance Related Business”). In connection with the XMF Restructuring, the XM Group advanced the XMF Restructuring Loans amounting to approximately US\$830 million and RMB299 million, as of the Latest Practicable Date to the Xiaomi Finance Group. Through the operation of the XMF Share Option Schemes, we expect that Xiaomi Finance would in the future no longer be consolidated as a subsidiary of our Group. Prior to such deconsolidation, we intend to position the Xiaomi Finance Group to operate independently and gradually reduce its reliance on the XM Group for financial assistance and other resources and, through managing the risk exposure of various finance-related businesses operated by the Xiaomi Finance Group, maximize the protection of the interest of our Company and our Shareholders as a whole. We expect that as the business operations of the Xiaomi Finance Group mature, it will gradually be able to operate independently from the XM Group through capital accumulation from its business operations and working capital from external borrowings. We expect that the Xiaomi Finance Group’s reliance on the XM Group for financial assistance will gradually reduce as the Xiaomi Finance Group repays borrowings from the XM Group and releases guarantees provided by the XM Group.

For further details of the financial assistance to be provided by the XM Group to the Xiaomi Finance Group, please refer to “Connected Transactions—The XMF Framework Agreement—Details of the transactions contemplated under the XMF Framework Agreement—Financial services.”

### *Monetization*

Currently we monetize our services primarily in mainland China and focus on advertising and internet value-added services. We have begun to build internet service monetization capabilities in India, Indonesia, Russia and elsewhere in the world. For example, in each of India, Indonesia and Russia, on our smartphones, our Mi Music app ranked number one in the music category, in terms of MAU in March 2018, our Mi Browser app ranked number two in the browser category and our Mi Video app ranked number two in the video category. Our monetization approach is to emphasize long-term sustainable monetization capabilities without compromising our exceptional user experience.

Our hardware creates a platform for users to engage with our internet services, which in turn we monetize through advertising and a wide range of internet value-added services. We use our proprietary technologies and big data analytical capabilities to offer comprehensive and innovative services to our business partners and users.

### *Advertising*

Our advertising distribution channels primarily include our mobile apps and smart TVs. In mainland China, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs in March 2018, such as Mi App Store, Mi Browser, Mi Music and Mi Video. We offer diverse types of advertising formats to our advertising customers, such as display and performance-based advertising, to suit their particular business needs and marketing goals. Utilizing our robust big data analytics and AI capabilities, we customize the look, feel and timing of the display of the marketing messages to allow their seamless integration into content while not compromising user experience. Our advertising customers cover diverse industries, ranging from auto and consumer

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goods to internet services and financial services, and they place advertisements directly with us or by engaging advertising agencies and resellers which in turn enter into contracts with us. We generate advertising revenue from this marketing distribution channel primarily by offering display-based and performance-based advertisement services. For display-based advertising services, we typically charge advertising customers based on the length of time during which the advertisements are displayed on our internet platform. For performance-based advertising services, we typically charge advertising customers on a per-click basis when the users click on the content, on a per-impression basis when the advertising content is displayed to users, or on a per-download basis, when the third-party apps is downloaded by users. Our other advertising services primarily include pre-installation of mobile apps for third-party app developers on our smartphones. The following table sets forth a breakdown of our advertising revenues during the Track Record Period:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)				
	(unaudited)				
Performance-based advertising services . . . . .	1,328,893	2,650,459	3,638,176	734,112	1,380,253
Display-based advertising services . . . . .	—	263,265	665,336	96,108	276,152
Other advertising services . . . . .	491,744	924,696	1,310,877	178,118	217,619
<b>Total . . . . .</b>	<b>1,820,637</b>	<b>3,838,420</b>	<b>5,614,389</b>	<b>1,008,338</b>	<b>1,874,024</b>

Our automated marketing functionalities for advertisers empower performance-based marketing throughout our mobile apps. We offer a suite of analytical tools to help our advertising customers to evaluate the performance of their ads and improve key metrics such as click-through rate. We allow e-commerce advertising customers to integrate their catalog into our platform, leading to more precise targeting and pushing of their products. Our big data technologies enable a real-time and dynamic bidding process by analyzing bidding price and click-through rates of the advertisements, which facilitate market making and improve monetization. Through the use of aggregated behavioral targeting data and analytics, we continually improve the effectiveness of our online marketing services for our advertising customers.

### *Internet value-added services*

A significant portion of our internet value-added service revenues was derived from online games. We offer streamlined digital sales, distribution and operational support services to third-party game developers. We offer a broad range of operational support to our third-party game developers, in a joint effort to enhance user engagement and increase monetization. For example, we closely monitor and analyze the key performance metrics of a game, including daily active users, average daily time online, paying user conversion rate and retention rate. Based on these metrics and leveraging our big data capabilities, our games operation team actively identifies areas for improvement and offers diagnostic advice to game developers. We also design promotional activities to help game developers gain more exposure and improve performance. We seek to maintain close and mutually beneficial relationship with key game publishers. Most of the games on our platform are free-to-play. We primarily generate revenue from sales of virtual currency that can be spent on purchase of virtual items for use in the games we operate, which is subject to revenue-sharing arrangements with third-party game developers. We first charge our users through our platform and then share a certain percentage of such revenues with game developers, except with a small number of developers, where payments are first routed to them via their own charging and billing system and we subsequently obtain our portion of revenues following the account settlement.

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Our other sources of internet value-added service revenues mainly include paid subscription by users of premium entertainment content (such as online videos, literature and music) as well as live streaming and internet financial services.

### ***Value Proposition to Internet Service Partners***

*Massive and engaged user base and direct user interaction.* We operate one of the largest internet platforms in mainland China in terms of user base and engagement. Our internet service partners can effectively and efficiently gain incremental user traffic and monetization opportunities through our platform.

*Marketing and promotions.* Leveraging the scale and deep engagement of our users, especially Mi Fans, we enable our internet service partners to run special promotions and targeted marketing campaigns utilizing data and interactive media in ways that cannot be achieved through traditional media or social networking platforms.

*Dynamic IoT platform and rich application scenarios.* We are at the forefront of the IoT transformation in mainland China, and our internet platform encompasses all common application scenarios. Our partners are encouraged to take advantage of our infrastructure to build and offer internet services that are at the forefront of the next wave of technological revolution.

*Big data analytics.* Within the parameters of our strict data privacy and protection policy, we conduct sophisticated analysis of user behavior and preferences to enable our partners to more effectively target their offerings and marketing efforts.

### **Global Operations**

Our global expansion began in 2014, with the pace accelerating significantly since 2016. As of March 31, 2018, we have sold our products in 74 countries and regions across five continents. According to IDC, we were among the top five smartphone brands in terms of unit shipments in the fourth quarter of 2017 in the following 15 countries and regions: India, Myanmar, Ukraine, mainland China, Egypt, Greece, Israel, Qatar, Russia, Indonesia, Singapore, Poland, Bulgaria, Czech Republic and Kazakhstan. Not only have we gained breadth, but we have also achieved remarkable depth within our global footprint by becoming the market leader in a number of key countries and regions with tremendous potential. In such countries and regions, we work diligently to replicate our unique triathlon business model of hardware, new retail and internet services in strict compliance with local laws and regulations. We generated 28.0% of our total revenues in 2017 outside of mainland China, compared with 13.4% in 2016 and 6.1% in 2015, and generated 36.2% of our total revenues in the three months ended March 31, 2018 outside of mainland China, compared with 23.2% in the three months ended March 31, 2017.

### ***India***

India represents our largest market outside of mainland China and is an example of the success we achieved in international expansion. We entered the Indian market in 2014 and became the number one smartphone company by unit shipments in India in only three and a half years, according to IDC. We have built a robust new retail infrastructure for the distribution of our products and services. In addition to our online Mi Store, our online sales channels in India also include popular e-commerce marketplaces such as Flipkart, TVS Electronics and Amazon. Our offline channels include an

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expansive network of Mi Homes and authorized retail stores operated by third parties. We also customized our products for the Indian market. For example, we enhanced the heat and erosion resistance of our hardware products in light of the higher average temperature in India. In addition, we are enlarging our product portfolio for the India market. For example, we launched Mi TV in February 2018.

In compliance with local rules and regulations, we partner with a local outsourcing partner to assemble our smartphones sold in India. We are also expanding our internet service offerings to users in India through collaboration with and investment in local partners, such as video content providers.

### *Rest of the World*

When selecting new countries and regions for our products, we prioritize strategically important markets with large population and compatible telecommunications infrastructure. We provide finished products to these local markets except for Indonesia, where the smartphones we sell there are locally assembled pursuant to our quality-control guidance.

### **Customers and Customer Service**

#### *Customers*

Our customers primarily include (i) end users who purchase our products, (ii) our online and offline distributors to whom we sell our products, (iii) advertising customers of our advertising services and (iv) users of internet value-added services.

Our top five customers accounted for 29.7%, 27.0%, 32.0% and 27.4% of our total revenue in 2015, 2016 and 2017 and in the three months ended March 31, 2018, respectively. Our largest customer accounted for approximately 10.4%, 15.4%, 13.5% and 11.1% of our revenue for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively. In 2017, our top five customers included (i) a leading e-commerce company in mainland China, (ii) an e-commerce company based in India, (iii) a consumer electronics retail company in mainland China, (iv) a consumer electronics distributor based in India and (v) an Indian branch of a leading international online e-commerce company. See “Risk factors—Risks Relating to Our Business and Industries—Any substantial decrease in the purchases for our products or services from our five largest customers could have a material and adverse effect on us.”

None of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company’s issued share capital) had any interest in any of our top five customers during the Track Record Period.

#### *Customer Service*

Providing great customer service is a high priority for us. Our commitment to users is reflected in the high levels of service provided by our customer service staff as well as in our product return and exchange policies. We had 15 customer service centers in 15 cities globally as of March 31, 2018, handling user queries and complaints regarding our products and services. Users can make queries on our products and ordering process and file complaints around the clock by various means, such as online chatting, a customer service hotline, online written instant messages through Xiaomi official accounts in WeChat and Weibo, and emails. Our customer service representatives are required to complete training on product and service knowledge, complaint handling and communication skills.

### *After-sale Service*

We generally allow customers to return unused goods purchased through our online channels and to exchange defective goods within certain period in compliance with regulatory requirements. Our customers may also have their products replaced for specific types of defects or quality issues as required under the relevant laws and regulations. In mainland China, we generally allow users to return our products purchased online for any reason within seven days from the date of purchase except for certain limited products where we allow return only if the packages of the products are intact, and we generally allow users to exchange any defective products within 15 days from the date of purchase. For returning, exchanging or repairing any defective products, our customers can either visit our authorized service centers or mail such products to our product repair centers.

In mainland China, India and 14 other selected countries and regions, we are responsible for after-sale services for all Mi-branded products sold by us or sold to end users by our distributors. In selected international markets, our local distributors are responsible for any replacement product, service, and support for end users. Such partners are contractually obligated pursuant to our framework agreements to provide after-sale services at a service standard level requested by us.

During the Track Record Period, the total value of products returned in mainland China amounted to RMB1,150.8 million, RMB710.8 million, RMB1,000.5 million and RMB229.0 million for 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively, representing approximately 1.8%, 1.2%, 1.2% and 1.0% of our total revenues generated from mainland China for the corresponding years. During the Track Record Period and up to the Latest Practicable Date, there were no material product recalls, product returns, product liability claims, warranty expenses or customer complaints that adversely affected our business.

### *Delivery*

We believe that reliable and timely product delivery is a critical component of providing a compelling shopping experience. We ship products purchased online through third-party logistics service providers. We have developed relationships with third-party logistics service providers to expand the geographic coverage of our operations. We generally are able to ship products to end users within one to seven days after online order placement.

### *Warranties*

We typically offer a limited parts and labor warranty on our products. The basic warranty period is typically in the range of one to three years from the date of purchase by the original user. In mainland China, we also offer a 90-day limited warranty on the components and parts used to repair our products. In certain jurisdictions, local law requires that manufacturers guarantee their products for a period prescribed by statute, typically at least two years. In addition, where available, users may purchase extended service coverage on many of our products for a fee.

Pursuant to the framework agreements with our outsourcing partners, in general our partners should repair any of our products with material quality issues and compensate us for any actual losses if the material quality issues are due to their assembling process. Our outsourcing partners are not responsible for material quality issues due to our product design or the components and raw materials procured by us. We provide one-year technical support and spare part support for hardware products sold to our international distribution partners.



For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, our warranty expenses amounted to RMB1,260.4 million, RMB1,036.2 million, RMB1,828.6 million and RMB586.2 million, respectively.

## **Marketing and User Engagement**

### ***Branding and Endorsements***

Since our inception we have emphasized the value of customer feedback and direct communication with our users. We do not have very large selling and marketing expenses for a company of our size. Instead, we rely on word-of-mouth marketing through continual offering of killer products. We have fostered a large, active and loyal user base. In order to reach a wider customer base, we engage popular celebrities as brand ambassadors for our products and sponsor popular variety shows.

### ***Community and Engagement***

We have a close-knit user community that shares our core values. They actively participate in our Mi Community, MIUI forum, various other social media platforms, our research and development initiatives and offline activities. We cultivate and support the growth of our user community through close interaction with our users, especially Mi Fans, and actively listening to their feedback. We have adopted a user-centric research and development approach. Mi Fans can directly provide our engineers and developers with valuable suggestions and insights, which enables us to capture user demand and market trends in a timely and precise fashion.

### ***Social Media***

Mi Community and MIUI forum are our official online discussion forums where users can share thoughts and experience, discover new functionalities and make recommendations for improvements for our products and services. We also had over nine million MAUs on our MIUI forum in March 2018. Our engineers regularly participate in our online discussion forums to respond to users' queries and understand users' evolving needs. We also maintain various official social media accounts to actively engage with the users by addressing their questions and concerns. Our news channel on Mi Community publishes the latest news and updates about our Company and products. Our users also engage with us through other social media platforms. As of March 31, 2018, there were approximately 29.6 billion Xiaomi related posts on Weibo. In the first quarter of 2018, there were over 37 million page views of our Xiaomi official WeChat account.

### ***Offline Events***

Our official offline events are nicknamed "Mi Pop." These events range from Mi Fan meet-ups to sporting events to dinner parties with our management teams. Mi Fans often take the initiative in planning and organizing these events to promote Mi Fan pride. Our close-knit and vibrant Mi Fan community is highly visible. Such events generate significant buzz on social media. We greatly benefit from word-of-mouth marketing and referrals by our passionate Mi Fans.

## **Data Privacy and Protection**

We are committed to protecting our users' personal information and privacy. We believe it is crucial that our users understand how we handle their information so that they can make informed

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choices in deciding how such information is used and shared. To this end, we collect personal information and data from users only with their prior consent, and we offer our users opt-out or opt-in options.

We have established a strict company-wide policy on data collection and processing and have implemented a network of process and software controls to preserve individual personal information and privacy. In accordance with our policy, the processing of any user data is required to go through the following assessment procedures: (i) providing adequate notice to users as to why and how their data is being collected and used, (ii) providing users with the choice to opt-out or opt-in, (iii) making reasonable efforts to prevent loss or leakage of any user data, (iv) providing users access to personal information held about them, and (v) enforcing the policy with effective means. We do not distribute or sell our users' personal data to other companies for advertising or other purposes without users' permission. We encrypt user data in network transmission. For back-end storage, we also use various encryption technologies at software and hardware levels to protect sensitive user data. With prior user consent and depending on the types of services that users engage with, we may collect the following categories of personal and behavioral data: (i) contact information (such as name, birthday, gender, mobile phone number, e-mail address, and delivery address); (ii) device information (such as serial number and hardware usage patterns); (iii) software and apps usage information; (iv) materials uploaded to Mi Cloud (such as photos, videos and contacts); (v) social activities (such as current employer, job title and education background); (vi) transaction activities (such as purchase records, bank account number, and credit card number); (vii) location information; and (viii) internet browsing activities. We only process behavioral statistics as part of our effort to develop more advanced AI technology for our products and services. To minimize the risk of data loss or leakage, we conduct regular data backup and data recovery tests. We also require any access to or processing of user data to go through strict assessment and approval procedures in order to assure that only valid and legitimate requests are executed. Our proprietary mobile security software protects users from phishing sites in real time. In order to comply with relevant local laws and regulations, user and behavioral data is primarily stored in the facilities of our domestic and international cloud service providers in mainland China and India. All user and behavioral data is only stored for a fixed period of time in accordance with local laws and regulations, and only until the business purposes for collecting and processing such data has been fulfilled, whichever is earlier. The user data collected is under our control, and we may analyze and utilize such data for permitted applications under relevant laws and regulations, as well as in accordance with user consent.

We prioritize user data security and privacy by strictly following our defined policy. We have a dedicated team to enforce our privacy practices. Since 2016, the privacy practice of our MIUI and Mi Store has been certified by TrustArc, a privacy compliance and risk management company that conducts comprehensive assessment of privacy policy and control measures. Each member of our big data team is required to sign an additional agreement with respect to the safeguarding of user data, in addition to standard employment agreements. Upon any breach of our data privacy and protection policy, as incorporated into our employee handbook, we may subject the relevant employees to strict disciplinary actions, including possible termination, as well as pursuing legal action for damages against such employees, based on such additional agreement. Similarly, we pursue legal actions against any business partner who violates data privacy and protection-related provisions of the cooperation agreements that we have in place with them. Our specific measures for preventing improper use and disclosure of data include: (i) strict classification of business and user data, (ii) network segregation, (iii) multi-factor authentication, and (iv) advanced encryption and watermarking technology.

## **Technology and IT Infrastructure**

### ***Cloud Computing***

Our sophisticated and strong cloud computing capability empowers us to provide differentiated services to our users and supports our continuous data analytic efforts. For individual users who grant consent to us, we leverage our cloud computing technology to store and analyze user data and provide tailored services to our users to enhance user experience. For instance, for photos taken on our smartphones, upon prior consent by our users, our cloud computing system analyzes and recognizes the objects, scenarios and figures in the photo, and allows the user to search for photos using key words in an album with higher precision. Through its capability to gather and analyze user data and user behaviors, our cloud computing technology serves as a universal analytics and processing engine that optimizes the functionality of our products in frequent and important user scenarios, thus enhancing the competitiveness of our products. For example, we design and develop customized optimization of our products for users in various countries and regions based on their different photo-shooting habits.

In addition, our cloud computing technology enables our ecosystem partners to conduct their business operation with security. Connecting to our enterprise cloud helps our partners achieve real-time storage and data backup and enables high-capacity and scalable data processing in an efficient, cost-effective and flexible manner. Our cloud computing also supports emerging applications so that IoT hardware can compute locally at the edge, while leveraging the cloud for global collaboration and machine learning at scale.

### ***Big Data***

Our data scientists specialize in data pre-processing, data modeling and data mining, as well as the creation of customized data analysis. Our big data processing and advanced algorithm capability enables us to analyze massive amount of data, based on which we design and tailor more innovative products and services to better serve and create value for our users.

With prior user consent, we collect various types of data, such as logs, user behaviors and patterns, from products and services across our platform. We have behavioral and sequential data of our users, stored in compliance with strict data privacy standards and data security requirements.

All data is pooled into one platform for ease of analysis and is further categorized into multiple layers, each requiring different level of access authority. Our different operational departments can access the data on an as-needed and real-time basis with user consent, and utilize the data to improve their respective function and performance.

### ***Artificial Intelligence***

Our AI technology team is responsible for developing and refining our proprietary computational algorithms and machine learning capabilities, and applying the latest AI technology in our products and services. Our engineers incorporate open source software with our robust proprietary technology to form an enterprise-grade platform to deliver an integrated suite of capabilities for data management, machine learning and advanced analytics. We have successfully applied our advanced AI capabilities in various aspects of our business to improve both user experience and monetization opportunities.

### *Computer Vision*

Our computer vision technology uses advanced algorithms and precisely detects, identifies and recognizes objects, scenes, images and faces, providing users with functionalities such as face detection and photo classification. Our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy.

Our face detection technology accurately and rapidly detects the location and the number of faces in photos. Our facial point detection technology can quickly and precisely locate key facial features and components. We have also developed advanced capabilities in facial boundary detection, face color optimization, portrait segmentation and white-balance optimization. These technologies enable our smartphones to take portrait photos with realistic bokeh effect even with one single camera. Our visual recognition app is capable of recognizing and identifying different real-life objects, such as flowers, plants, vehicles, foods, celebrities, animals, arts and posters, and facilitating our users to acquire relevant information or image or to browse similar commercial products related to the objects identified.

### *Speech Recognition and Natural Language Processing*

We develop our leading speech recognition and natural language processing technologies under our proprietary testing standards and certification system. Our speech recognition capabilities feature highly accurate and speedy recognition and translation of spoken Chinese language into text, which builds the bedrock for further processing and analysis. Our machine translation system is trained on massive parallel corpus and achieves high accuracy for languages pairs. With sophisticated algorithms applied to a variety of daily user scenarios, we continuously improve and expand the application of voice control, both by our own team and third-party developers.

As of March 31, 2018, our proprietary AI assistant can control the operation of 118 smart hardware product models within our platform and supports millions of smart devices in use cases covering content, productivity tools and other forms of interactions. Our AI speaker is able to adapt to users' individual language usages, searches, and preferences and carry conversations intelligently with users and respond to a range of customized queries. As a virtual assistant, it is able to recognize user voice and possesses contextual knowledge of user information to complete a variety of daily tasks assigned by users. Connected through our AI platform, our AI speaker can also interact with our apps and third-party apps to provide services such as navigating and ordering products from Mi Store. Our cloud-based open platform enables third-party developers to code and program new voice-controlled software and skills for our voice-enabled AI speaker.

### *Search and Recommendation*

Leveraging our AI technology, we have developed a high-quality search and personalized recommendation system for our internet services, allowing users to access what they need anytime, anywhere, including information, applications, games, music, videos and merchandises. Through machine learning techniques, our system is able to better understand content, including filtering out vulgar and pornographic content, categorizing content and extracting semantic tags. For example, when our user searches for certain content, our system first identifies the query intent based on the searched term, and then matches and returns the content that best meets the user's intention through

search sorting algorithms. When the user does not have a clear search intention, our system predicts the content that the user may be most interested in based on user profile and previous search history. Currently our search and personalized recommendation system powers our various services including Mi Store, Mi Music, Mi Video, Mi App Store, Mi Game Center, Mi Browser and Mi TVs. When a user opens the homepage of Mi Store, the system will recommend different products based on the predicted user interests. When a user adds a product to the shopping cart, the system also recommends other products that may be appealing to the user. Through these technologies, we deliver better user experience and increase our sales conversion rate.

### *IT Infrastructure*

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the reliability of our operations as well as the security of information on our internet platform. We continuously develop our platform to offer users an effortless and seamless experience across all of our internet services, while at the same time enhancing the reliability and scalability of our internet platform.

#### *Cloud Services*

In mainland China, we have contracted with KSYUN, an IaaS cloud service provider, to utilize its infrastructure, such as computing services, storage, server and bandwidth. We also utilize public cloud services in mainland China, such as Microsoft's Azure Cloud Services, to ensure the stable operation of our business. Our data storage can be switched efficiently between two cloud centers. Our enterprise cloud, as a PaaS provider, connects external cloud service system with our ecosystem partners to provide them with product development and distribution solutions. Our systems infrastructure is hosted in redundant centers in different cities in mainland China with backups stored in separate data bases of the cloud service providers. We have multiple layers of redundancy to ensure the reliability of our network. We also have a working data redundancy model with comprehensive backups of our databases conducted every day.

In the rest of the world, we primarily contract with Amazon Web Services for the use of their cloud services. The current cloud service agreements operate on an annual auto-renewal basis, unless terminated by either us or the service providers within a certain period prior to the renewable date.

#### *Information Security*

We are committed to maintaining a secure platform and protecting our users' information security. We have built an information security management system (ISMS) based on the international framework of ISO27001 to manage and protect our information from a variety of aspects, such as security policy and technical control. Our network and application systems use a defense-in-depth security system and are secured at multiple layers, including network segmentation, strict access control and secure communication protocols between the applications and cloud servers. To prevent unauthorized access to our system, we have implemented network boundary access controls and enabled multi-factor authorization for remote access. We have also implemented various security procedures, including security baseline check, a strict policy on compulsory password enforcement and periodic review mechanism with respect to data review authority.

Our multi-layer security technology automatically defends against malicious attacks every day and secures the security of our users' data in various scenarios. The communication module

automatically blocks spam messages and fraud calls and alerts the central internet service provider station in real time. The payment module automatically scans a phone's security once a payment process is triggered. The account module is able to detect malicious logon and prevent account leakage. The application security module scans potential viruses and blocks any detected fake applications before a user installs them.

In addition, we back-up our user and other forms of data on a daily basis in separate and various secured data back-up systems to minimize the risk of data loss. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained.

#### *Payments*

We engage major third-party payment channels in mainland China, such as WeChat Pay and Alipay, as well as Mi Pay, for hardware product sales as well as paid services sold to users through our internet services. We enter into payment service agreements with payment channels for an initial term that is typically one or two years, which in practice are typically automatically renewable upon expiry. Globally, we accept payments primarily through international credit cards and online payment service providers.

#### **Research and Development**

As the industry which we compete in is characterized by rapid technological advances, our ability to compete successfully depends on our ability to develop and introduce new products, services and technologies to the market. We are passionate about developing innovative technologies and continuous upgrading and improving the functionality and features of our technology infrastructure to enhance existing products and services and expanding the range of our offerings through in-house research and development, licensing of third-party intellectual property and acquisition of third-party businesses and technology.

As of March 31, 2018, our total research and development staff consisted of 5,515 employees. Our research and development team comprises industrial design engineers, electrical engineers, mechanical engineers, computer scientists, software engineers and mobile app developers. We incurred RMB1.5 billion, RMB2.1 billion, RMB3.2 billion and RMB1.1 billion in research and development expenses in 2015, 2016 and 2017 and in the three months ended March 31, 2018, respectively, and we incurred RMB77.9 million, RMB170.7 million, RMB139.0 million and RMB28.7 million in patent application during the same period, respectively. For more details, please see “—Intellectual Property.”

#### ***Product Planning***

We have a long pipeline of future products on our research and development watch-list and we continue to closely monitor user preferences and make corresponding adjustment and updates to our product plans. We aim to push the boundaries of what technology can offer by providing cutting-edge products or adding new and optimized features to our existing products to users. For example, we introduced the first bezel-less smartphone, which incorporated various innovative technologies such as using vibrating ceramic acoustic techniques to replace speakers and using ultrasonic proximity sensors to replace infra-red proximity sensors.

#### ***Industrial Design and Hardware Engineering***

Our product innovations are driven by our strong emphasis on research and development and the close collaboration between our engineering, industrial design and manufacturing teams. Once a

development project is initiated, a multi-disciplinary team is established to design the product and transition it into production. Our industrial design team works closely with product managers and development engineers throughout the entire product development cycle, and all of its members are equipped with strong technical background and design understanding. Our hardware engineers are responsible for configuration of a product, and closely collaborate with our industrial design engineers to improve the layout and design of our product. Our industrial design and hardware engineers also maintain close communications with our engineers responsible for the manufacturing process and make adjustments to the design and hardware configuration of a product to ensure it can be manufactured efficiently with robust functionality.

Prior to entering commercial production of our in-house hardware products, our new products need to go through high-standard engineering validation testing, design validation testing and production validation testing. After products are launched, we continuously improve our products, refine our design and uncover defects through monitoring user feedback.

### ***Software Engineering***

Our software engineers are in charge of developing our internet service products and our software platform to support the integration of our products and internet services as well as the transmission, storage and processing of user data. As of March 31, 2018, our MIUI department had 2,275 employees, among which 1,692 members were software engineers. The key elements of our software engineering philosophy include efficiency, security and reliability.

Our software engineering process is continually driven by user demands and our desire to innovate. We closely monitor user behavior and user preferences and respond to any changes or shifts by developing new features or optimizing existing features in MIUI and mobile apps. To remain innovative, we encourage our employees to maintain close communications, in some cases, in-person interactions, with our users and Mi Fans to understand their needs, and provide our development teams with autonomy and freedom to explore new concepts in updating existing apps or creating new apps.

Our development process for a new app or a major new update for MIUI or an existing app can be divided into several stages, including project initiation and development, beta testing, launch and ongoing optimization.

Once we discover unmet user needs gathered through various channels, we develop a prototype for several rounds of testing with small groups of our users. We then form an inter-departmental project team to conduct an in-depth feasibility study. If we find that a new app or new update is feasible in all respects, we will proceed to formulate steps in the development, internal testing and launch of the new app or new update. In the case of localization of a new MIUI update or an app to an overseas market, our technology teams will work closely with local teams to understand user needs and translate such needs across language and cultural divides into an effective product.

After completing the project initiation and development stage, we conduct internal tests to resolve any major technological issues and software bugs that may exist in the test version. We subsequently make the new or updated beta versions of MIUI or apps available to selected users. After we launch our service, we continually monitor and analyze user behavior and continue to optimize functions and performance based on user feedback.

**Suppliers of Raw Materials, Components, Finished Products and Internet Services*****Procurement***

We procure raw materials and components from top-tier suppliers for the production of our in-house products based upon a forecasted production plan and outsource the assembly of our in-house designed products to our outsourcing partners. We closely collaborate with our ecosystem partners to jointly design and develop hardware products, and our ecosystem partners supply finished products to us for sale and distribution to our customers.

Although most raw materials and components essential to our in-house products are generally available from multiple sources, a few components are currently sourced from a single or limited number of high quality suppliers in the industry. Therefore, many raw materials and components used by us, including those that are available from multiple sources, may at times be subject to industry-wide shortage and significant pricing fluctuations. See “Risk Factors—Risks Relating to Our Business and Industry—Future operating results depend upon our ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms.”

We use certain custom components for our in-house designed products that are not commonly used by our competitors, and new products introduced by us often source custom components available from only a single or limited number of suppliers. When a component or product uses new technologies, initial capacity constraints may exist until a supplier’s yields have matured or manufacturing capacity has increased. Continued availability of these raw materials and components at acceptable prices, or at all, may be affected if those suppliers decide to concentrate on the production of common components instead of components customized to meet our requirements.

Purchases from our five largest suppliers for each of 2015, 2016 and 2017 and for the three months ended March 31, 2018 accounted for approximately 41.7%, 37.6%, 42.0% and 37.3% of our total purchase amounts during those periods, respectively. Our largest supplier for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018 accounted for approximately 11.8%, 13.8%, 14.3% and 10.2% of our total purchase amount during those periods, respectively. As of March 31, 2018, we had maintained business relationships with our five largest suppliers for five to eight years. These suppliers are located in the mainland China, U.S. and Hong Kong. In the three months ended March 31, 2018, our top five suppliers included (i) a leading supplier of SoCs based in the U.S.; (ii) a supplier of electronic components based in Hong Kong; (iii) a supplier of memory and touch screen display modules based in mainland China; (iv) a supplier of memory and electronic components based in Hong Kong and (v) a supplier of touch screen display modules based in mainland China. In 2017, our top five suppliers included (i) a leading supplier of SoCs based in the U.S.; (ii) a supplier of memory and electronic components based in Hong Kong; (iii) a supplier of components based in Hong Kong; (iv) a supplier of touch screen display modules based in mainland China and (v) a supplier of electronic components based in Hong Kong. In 2016, our top five suppliers included (i) a leading supplier of SoCs based in the U.S.; (ii) a supplier of touch screen display modules based in mainland China; (iii) a supplier of memory and electronic components based in Hong Kong; (iv) a supplier of components based in Hong Kong and (v) a leading smartphone outsourcing assembler based in mainland China. In 2015, our top five suppliers included (i) a leading supplier of SoCs based in the U.S.; (ii) a supplier of components based in Hong Kong; (iii) a supplier of touch screen display modules based in mainland China; (iv) a leading smartphone outsourcing assembler based in mainland China and (v) a supplier of electronic components based in Hong Kong. See “Risk Factors—Risks Relating to Our Business and Industry—Future operating results depend upon our



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ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms.”

During the Track Record Period, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company’s issued share capital) had any interest in any of our top five suppliers.

### ***Major Raw Materials and Component Suppliers***

The main components and raw materials used in the assembly of our in-house products include SoCs, displays, memory chips, batteries and cameras. We procure our main components and raw materials directly from suppliers or their authorized distributors. We seek to avoid shortages of components and raw materials by actively balancing our rolling hardware product demand forecasts with our component and material stock levels. We believe we have good relationships with our suppliers. In addition, we design certain key components, such as SoCs, in house.

We typically enter into framework agreements with suppliers for our key components, pursuant to which we make separate purchase orders and negotiate the prices and volume at each purchase order. The suppliers are responsible for the transportation of our purchases to locations designated by us. We are typically granted credit terms of 60 to 90 days by our suppliers and their authorized distributors of components and materials, except for certain key components and materials for which advance payments are required. In general, our suppliers are required to compensate us for any direct economic losses resulting from their components and materials. The framework agreements typically have a term of one year, which may be extended if agreed by both parties.

### ***Major Finished Ecosystem Hardware Product Suppliers***

Our major ecosystem partners who supply us with finished products include:

- *SmartMi*. SmartMi is the supplier of our smart air purifiers and air quality monitors.
- *Huami*. Huami is the supplier of our smart bands, watches (excluding children’s watches and quartz watches), scales and associated accessories.
- *Zimi Technology*. Zimi Technology is the supplier of our suite of mobile power-related hardware products.
- *Roborock*. Roborock is the supplier of our smart robot vacuum cleaners.
- *Ninebot*. Ninebot is the supplier of smart scooters.
- *Viomi*. Viomi is the supplier of our water purifiers and certain other smart IoT home appliances.
- *1More*. 1More is the supplier of headphones.

For ecosystem hardware product suppliers, we are also typically granted credit terms of 60 to 90 days.

### ***Major Internet Services Providers***

We obtain digital content for our internet services from a variety of internet services partners. Based on the type of internet services, our major internet service partners include:

- *Games*: Tencent, Kunlun and NetEase.
- *Videos*: iQIYI and Sohu.
- *Online Literature*: China Literature.
- *Music*: Rock Records.
- *News*: Yidian Zixun.

We typically enter into revenue sharing agreements with suppliers of our internet services.

### **Assembly**

A substantial majority of our in-house products are currently assembled by our outsourcing partners in mainland China, and some of such products are assembled in India and Indonesia in compliance with the relevant local regulations. For example, during the Track Record Period, the total volume of our assembled smartphones was approximately 69.0 million in 2015, 50.6 million in 2016, 95.0 million in 2017 and 24.4 million in the three months ended March 31, 2018. Our outsourcing partners produce our products using design specifications and standards established by us. We possess the key patents and technologies in relation to our hardware production. Our partners specialize in the assembling of electronic devices, and we believe they are experienced and well-positioned to meet our volume, cost and strict quality requirements. As of March 31, 2018, we had maintained business relationships with our five largest outsourcing partners for one to six years. During the Track Record Period, none of our five largest outsourcing partners were a connected person of ours.

We have entered into a framework agreement with each of our outsourcing partners. Each framework agreement sets forth the general terms and conditions of cooperation. Pursuant to the framework agreement, the assembling fees are quoted by our partners based on assembling volume and the specification of the model and series of our products and confirmed in writing by both parties in separate production orders. The assembling fees are typically paid within a period of time after product delivery. We are required to provide rolling assembling volume forecasts and issue orders in advance. If our order volume is higher than the forecasted volume, our partners have obligations to ensure the timely assembling of the excess demand from us that is within a certain percentage of the forecasted volume. We should notify our partners at least two months in advance for any assembling demand over a certain percentage of the forecasted volume. In general, if our partners fail to meet our volume forecasts over a certain threshold, they compensate us for any resulting economic loss. We also run test assembling of new models and series of our products with our partners in advance of mass assembling in order to evaluate our partners' facility and technological capabilities and to optimize the entire process. Our partners are required to safe-keep raw materials, maintain waste of raw materials within certain levels during assembling, and comply with quality standards agreed upon by us. The framework agreements typically have a term of three years subject to negotiations of renewal upon expiration and contain customary termination clauses.

Our outsourcing partners assemble hardware devices using components and raw materials primarily sourced and procured by us. Our engineers and other quality assurance professionals monitor the assembling process and compliance with all of our protocols. We believe that outsourcing

assembling affords us greater scalability and flexibility than establishing and maintaining our own assembling facilities. We periodically evaluate the necessity and benefit of working with additional outsourcing partners to support our operations.

### ***Major Domestic Outsourcing Partners***

In mainland China, we have engaged outsourcing partners to assemble our in-house hardware products, including Foxconn that has its assembly facilities for our products located in Hebei Province, and Inventec Appliances that has its facilities for our products located in Jiangsu Province. Our outsourcing partners in mainland China assemble products for sale in mainland China and globally (except for India and Indonesia). The major outsourcing partner we engage for our smart TVs is TCL Multimedia. We have not encountered any material delays in the assembling or delivery of hardware devices from our partners in mainland China, during the Track Record Period.

### ***Major International Outsourcing Partner***

India is our second largest market. We primarily rely on our outsourcing partner in India, Foxconn, to assemble our products sold in the country. We have not encountered any material delays in the assembly or delivery of hardware devices from our partners in India, during the Track Record Period.

## **Logistics and Inventory Management**

### ***Logistics and Warehouse***

We operate our warehouses for storing finished products and certain components and raw materials, and we engage third-party logistics service providers for delivery services. Finished products that have passed quality inspections are delivered by the logistics service providers from our outsourcing partners to our warehouses, packaged in accordance with our specifications and quality standards, subsequently delivered to our regional warehouses, and ultimately to locations specified by our customers, including users and distributors.

### ***Inventory Management***

Our inventory includes components and raw materials for in-house hardware products and finished products. We have a strict inventory control policy to monitor our inventory levels and minimize obsolete inventory. Through close coordination with our customers and outsourcing partners, as well as frequent purchases of components from suppliers, we are able to carry fewer raw material and in-process inventories and lower our inventory risk. However, to avoid any shortage of supplies, we may strategically keep a higher level of stock for certain key components to preempt possible industry-wide shortages.

## **Product Quality Assurance**

We are committed to maintaining the highest level of quality in our products. We have designed and implemented a quality management system that provides the framework for continuous improvement of products and processes and have established a product quality assurance committee to monitor the implementation of our quality management system. Led by Lei Jun, who is the incumbent chairman of our product quality assurance committee, the committee formulates quality assurance policies and sets up a quality promotion team in each of our operational departments to promote quality improvement.

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For our new product lines, we conduct thorough examinations of product samples and each of their components at the product verification testing stage to make sure they satisfy all the technical requirements set forth in our structure design and industrial design. The examination results are recorded on a set of product sample documents, which are further reviewed and approved before they are handed over to our outsourcing partners to begin assembling.

For mass production lines, we also have a quality assurance team that establishes, communicates and monitors quality standards by product category.

We have access to each assembly facility of our outsourcing partners, and our quality control team continually monitors the quality of incoming components, materials and finished products as well as the assembling processes at our partners' facilities.

We passionately pursue friendships with our users and actively respond to their needs by reflecting their feedback in our products. Meanwhile, we continuously improve our products and enhance their competitiveness. We were among the top ten in the "Made in China 2025" quality award in 2017. Lei Jun was honored as the "Spokesman of Quality of the Year" in 2017 by the General Administration of Quality Supervision, Inspection and Quarantine of China and was appointed Vice Chairman of the China Association for Quality in February 2018.

For our internet service products, in particular the online games, music, news, videos, mobile apps and online literature that we provide to our users, we continuously conduct stringent content screening and monitoring to ensure that the contents on our platform comply with the relevant laws and regulations. We have designated employees under our internet service business units that are responsible for reviewing and monitoring contents to be provided by us to ensure the high quality of our internet service products and their compliance with the applicable laws and regulations.

### **Intellectual Property**

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We currently hold a broad collection of intellectual property rights relating to certain aspects of our in-house designed and ecosystem hardware products, software and internet services. Such rights include trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights in mainland China and a number of overseas jurisdictions. For ecosystem hardware products, we typically exclusively hold the intellectual property rights relating to the design of such products and hold joint ownership over the intellectual property rights relating to the technology arising from the joint research and development of such products with our ecosystem partners. Our ecosystem partners are allowed to use such jointly-owned intellectual property rights to develop and manufacture products of their own brands with features that can be easily differentiated from ours, but need to obtain our prior consent if they would like to license such intellectual property rights to a third party. We have entered into worldwide intellectual property cross license agreements with a number of global technology leaders in the mobile telecommunications market.

Many of our products are designed to include intellectual property we licensed from third parties. We have established relationship with Qualcomm since 2010. In September 2016, we entered into a 3G and 4G mainland China patent license agreement with Qualcomm under which Qualcomm granted us a royalty-bearing license right for 3G and 4G completed devices in mainland China. Such

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agreement is currently effective and contains customary termination clauses. We further expanded our cooperation with Qualcomm and entered into a multi-product patent license agreement in November 2017. Under such agreement, Qualcomm licensed to us certain patents on a royalty-bearing basis for certain 3G and 4G devices outside of mainland China. We entered into a new multi-product patent license agreement with Qualcomm in April 2018, which replaced the multi-product patent license agreement entered into with Qualcomm in November 2017. Under the new license agreement, Qualcomm licensed to us, outside of mainland China, certain new technologies in addition to those licensed to us under the prior license agreement on a royalty-bearing basis. This newly-entered license agreement is currently effective and contains customary termination clauses. Qualcomm is our largest supplier of SoCs, and we rely on Qualcomm for its SoC supply for most of our smartphone products.

We entered into a collaboration and license agreement with Microsoft in May 2016, under which Microsoft agreed with us to collaborate on the deployment of Microsoft Office and Cortana applications in connection with our Android compatible smartphones and tablets and to sell such products pre-installed with Microsoft software suite in mainland China, India and certain other countries and regions. We cooperate with Microsoft in software pre-installation, technical support and patent licensing and transaction. The agreement with Microsoft is currently effective and contains customary termination clauses. We also entered into a purchase agreement with Microsoft in May 2016, under which Microsoft transferred patents to us.

We obtained a license to use the patented technology in Via Licensing Corporation's Advanced Audio Coding (AAC) patent pool by entering into a patent license agreement with Via Licensing Corporation in December 2016. We were granted patent rights on a royalty-bearing basis for devices encoding or decoding data in accordance with the AAC standards. The license agreement with Via Licensing Corporation is currently effective and contains customary termination clauses.

In June 2017, we entered into a multi-year patent agreement with Nokia, under which we cross licensed each party's cellular standard essential patents for devices that include such cellular standard technology, and we acquired certain patent assets from Nokia. The agreement is currently effective, and contains customary termination clauses.

The expiry dates for the agreements with Qualcomm, Microsoft, Via Licensing Corporation and Nokia described above range from May 15, 2019 to December 31, 2022. Renewal of such agreements is subject to mutual consents by the parties, and we do not expect that we will experience any significant difficulties in renewing such agreements upon expiry if needed.

It may be necessary in the future to seek or renew licenses relating to various aspects of our products, processes and services. While we have generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all. See "Risk Factors—Risks Relating to Our Business and Industry—We rely on access to third-party intellectual property, which may not be available to us on commercially reasonable terms or at all."

### ***Intellectual Property Protection***

The protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is a strategic priority for the sustainable development and growth of our business. We regularly file patent and other proprietary rights applications to protect innovations

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arising from our research, development and design, and are currently pursuing thousands of intellectual property applications around the world. In particular, we have accumulated a large portfolio of issued patents, including utility patents, design patents and others, in mainland China and various countries and jurisdictions internationally. We believe the duration of our intellectual property rights is adequate relative to the expected lives of our products and services.

We rely on a combination of patent, trademark, copyright and other intellectual property protection laws in mainland China and other jurisdictions, fair trade practice, as well as confidentiality procedures and contractual provisions to protect our intellectual property. In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, third parties may infringe our intellectual property rights. Unauthorized use of our intellectual property by third parties and the expenses that may incur in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors—Risks Relating to Our Business and Industry—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.”

### ***Geographic Distribution of Intellectual Property***

As of March 31, 2018, we had over 3,600 patents registered with the State Intellectual Property Office of the People’s Republic of China and over 10,900 pending patent applications in mainland China. Globally, we had over 3,500 patents registered and over 5,800 pending patent applications in various overseas countries and jurisdictions, which were primarily filed in the United States, Europe (including but not limited to, UK, France, Germany), India, Japan and Russia.

As of March 31, 2018, we owned approximately 140 software copyrights and approximately 150 other copyrights registered with the National Copyright Administration of the People’s Republic of China all of which were self-created. As of March 31, 2018, we had approximately 1,600 trademarks in various categories registered with the China Trademark Office. In addition, we had approximately 3,700 registered trademarks in various overseas countries and jurisdictions internationally.

As of March 31, 2018, we owned more than 500 registered domain names, including domain names of our official websites. We pay renewal fees for our domain names regularly.

We did not have any material disputes or any other pending material legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

Please see “Statutory and General Information—Further Information about Our Business—Intellectual Property Rights” in Appendix IV to this prospectus for details of our material intellectual property rights.

### **Strategic Investments**

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to embrace disruptive technology trends, to enter new geographic markets, and to drive broad adoption of our products and services. Our investment strategy is (i) to deepen strategic cooperation with partners through investing and becoming active shareholders and (ii) to apply financial investment rigor and invest in only our best-in-class partners. Our corporate development investment efforts are divided into (i) IoT and lifestyle product investments, (ii) media and entertainment investments, (iii) mobile internet investments, (iv) internet finance investments and (v) artificial intelligence investments. For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, our realized investment income was RMB533.5 million, RMB29.5 million, RMB283.4 million and RMB83.8 million, respectively. For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, our gains on long-term investments measured at fair value through profit or loss were RMB2.8 billion, RMB2.7 billion, RMB6.4 billion and RMB1.8 billion, respectively. Our strategic investments have not only allowed us to forge close partnerships with investee companies to create synergies across our ecosystem, but have also provided us with stable and recurring investment income.

In 2017, we established a joint venture with Hubei Yangtze River Economic Belt Industry Fund to raise an investment fund to be run by our private equity team. The investment fund is financial-return driven and dedicated to investing in world-class component and manufacturing companies situated upstream of the smart hardware value chain.

### **Competition**

The markets for our products and services are highly competitive and we are confronted by aggressive competition in all areas of our business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, laptops and other smart devices. We generally compete with other internet companies for user time spent. Principal competitive factors important to us include product features, relative price and performance, product quality and reliability, design innovation, software integration and user experience, marketing and distribution capability, service and support and corporate reputation. Our main competitors include domestic and global internet industry leaders, as well as major producers of smart devices including Apple, Samsung, Huawei, OPPO and Vivo.

We experience significant competition for highly skilled personnel, including management, engineers, designers and product managers. Our growth depends in part on our ability to retain our existing personnel and recruit highly skilled employees.

### **Employees**

As of March 31, 2018, we had 14,513 full-time employees, 13,935 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India, Taiwan, Hong Kong and Indonesia. We expect to continue to increase our headcount in mainland China and our key target markets in the rest of the world. As of March 31, 2018, our research and development personnel, totaling 5,515 employees, were staffed across our various departments. As of March 31, 2018, among our research and development personnel, 36.1% had academic degrees at PhD or masters level, and 54.5% had academic degrees at bachelor's level. Most of our research and

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development personnel are professionals in the fields of electronic information and software engineering. Many of our core research and development team members have previous work experience with global technology giants such as Microsoft, Google, Qualcomm and Motorola. The following table sets forth the number of our employees by function as of March 31, 2018:

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total</u>
Sales and services .....	6,048	41.7
MIUI .....	2,275	15.7
Smartphones .....	1,292	8.9
Ecosystem .....	955	6.6
Administration .....	852	5.9
AI and cloud platform .....	700	4.8
Global .....	618	4.2
IT .....	450	3.1
Smart TV .....	435	3.0
Others .....	888	6.1
<b>Total</b> .....	<u>14,513</u>	<u>100.0</u>

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of March 31, 2018, over 5,500 employees of ours held share-based awards. As a result, we have successfully attracted and retained qualified employees, in particular our core employees.

We primarily recruit our employees in mainland China, in particular engineers and technicians, through recruitment agencies, on-campus job fairs and online channels including our corporate website and social networking platforms. We recruit our overseas employees primarily through recruitment agencies and referrals. We have adopted a training policy, pursuant to which management, technology and other trainings are regularly provided to our employees by internal speakers and third-party consultants.

As required under the regulations of the mainland China, we participate in various employee social security insurance programs that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit insurance, under which we make contributions at specified percentages of the salaries of our employees.

During the Track Record Period, we had participated in certain social security insurance programs for our employees. However, primarily due to administrative procedures concerning our new joiners during their month of joining, whose contribution procedures were still in process or social security insurance program accounts were still maintained with former employers, an immaterial number of our employees had not participated in certain social security insurance programs during the Track Record Period. During the Track Record Period, based on certificates issued by the relevant competent authorities, we had not been subject to any material penalties imposed by any competent authorities in relation to the foregoing. Each of our Controlling Shareholders has undertaken to assume responsibility for any penalties or supplementary contributions that may be imposed on our subsidiaries in mainland China by competent authorities prior to the Listing provided that we will first satisfy such penalties or supplementary contributions with our own financial resources.

Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based



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incentive awards to our employees in the future to incentivize their contributions to our growth and development. Outside of mainland China, we have provided benefits to employees in compliance with local laws and regulations.

We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

### **Insurance**

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering all risks of physical loss, destruction or damage to the inventory of our products and our fixed assets. We also maintain public liability insurance for our Mi Homes in mainland China to protect against a variety of claims, including bodily injury, property damage and personal injury, that may arise from the business operations of our Mi Homes. In addition, we have purchased construction all risks insurance for our Mi Homes under construction, which provides coverage for property damage and third-party injury or damage claims that may arise from the construction projects. We maintain product liability insurance for our ecosystem hardware products sold in North America. We also maintain trade insurance for our overseas transactions in certain other markets.

In line with general market practice, we do not maintain any business interruption insurance, which is not mandatory under the relevant laws of the mainland China. We do not maintain key-man life insurance or insurance policies covering damages to our IT infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors—Risks Relating to Our Business and Industry—We have limited insurance coverage which could expose us to significant costs and business disruption.”

### **Properties**

As of April 30, 2018, we operated our businesses through 301 leased properties and five self-owned properties in mainland China, India, Indonesia, Russia, Hong Kong, Thailand, Vietnam, Mexico, Spain, Poland, USA, Pakistan and UAE. Our leased and self-owned properties in mainland China and leased properties in India serve as our offices, Mi Home retail stores, research and development centers, and customer service centers, while those in other countries and regions serve as our offices. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations and retail outlets. We believe that, given that we have outsourced the assembling of our products, and there is sufficient supply of properties in mainland China and the countries and regions in which we have premises, we do not rely on the existing leases or self-owned properties for our business operations.

According to Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of March 31, 2018, each of our property interests had a carrying amount below 15% of our consolidated total assets.

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### *Owned Properties*

#### *Land and buildings*

The following table sets forth a summary of the land use rights we owned in mainland China as of March 31, 2018:

No.	Description/Location	Gross Site Area (square meters)	Gross Site Area under Construction (square meters)	Existing Use	Expiry Date
1	Yizhuang, Beijing .....	106,518	191,303	Office space	November 2, 2065
2	Haidian, Beijing .....	43,991	348,006	Office space	April 12, 2066
3	Guangzhou, Guangdong .....	12,013	103,205	Office space	February 19, 2056 or February 19, 2066

As of the Latest Practicable Date, we have obtained certificates for all of the above-listed land use rights. The authorized periods of the land use rights were 40 to 50 years.

As of the Latest Practicable Date, we are in the process of the constructing new office buildings for our planned Xiaomi Campus on the parcel of land located in Haidian, Beijing (the “**Campus**”). We have obtained confirmation from the relevant building construction authorities that the construction of the Campus is in compliance with relevant laws and regulations and the quality of construction work is satisfactory. We also obtained confirmations from relevant fire-control and public security authorities that the Campus meets the relevant fire-control standards and do not violate any fire-control laws or regulations. We inspect and maintain the properties on a regular basis with a view to ensuring satisfactory safety conditions. Based on the safety records and measures that we have taken, we believe all of our buildings are fit for commercial related usage.

### *Leased Properties*

As of April 30, 2018, 37 of the lessors of 238 properties we leased in mainland China had not provided us with valid title certificates, valid title certificate for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties.

Pursuant to the applicable laws and regulations of the mainland China, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban Rural Development of the mainland China. As of April 30, 2018, we had not completed 234 lease registration for 238 properties we leased in mainland China, primarily due to the difficulty of procuring our lessors’ cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that such leases are registered. JunHe LLP, our legal advisor as to the laws of mainland China, has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under the laws of mainland China, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. According to the Management Rules of Commodity House Leasing (《商品房屋租賃管理辦法》), the estimated total maximum penalty is approximately RMB2.3 million.

### **Health, Safety and Environmental Matters**

We engage outsourcing partners to assemble our hardware products developed in-house and rely on partners to supply finished ecosystem hardware products. We do not operate any manufacturing

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or assembling facilities. We only operate some of the key warehouses and engage third parties for delivery of our products. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

Our *Policy on Management of Pollutants*, or the Policy, has been distributed to our relevant internal departments and external outsourcing partners and other suppliers. Pursuant to the Policy, suppliers shall undertake to provide raw materials and components in accordance to the requirements of the Policy and that the suppliers shall establish relevant internal control systems to monitor and supervise the use of any pollutants/hazardous substances. Suppliers are also required to submit (i) a signed declaration, where the suppliers shall undertake to, among others, notify us should there be any changes to their raw materials, components, production method and sites, and any products failing to satisfy the standards as set forth in the Policy; (ii) a third-party precision analysis report and (iii) a list of the substance/raw materials used.

In terms of the assessment of potential new suppliers for our smartphones, in addition to assessment of the quality of raw materials, components and services supplied, we also give significant weight to the following four factors: (i) environmental protection management, (ii) health and safety management, (iii) information security management, and (iv) social responsibility management. For environmental protection management, we have a 17-prong test to assess various aspects of the environmental protection procedures and capabilities of prospective new suppliers for our smartphones. In terms of the assessment of potential new suppliers for our laptops, we carry out on-site examination of the production facilities of prospective suppliers in order to determine whether (i) they are in compliance with national and local environmental protection laws and regulations, (ii) whether they regularly conduct internal environmental compliance audit and whether the results of such audits are properly recorded, (iii) whether environmental protection is a consideration in their design and production processes, and (iv) whether their production facilities have enough safeguards for environmental protection and labor safety compliance.

In terms of proposed construction and leasehold improvement projects, we engage independent qualified consultant agencies to produce reports on energy conservation, environmental and ecological impact, as well as socio-economic impact, as part of our holistic feasibility study procedure.

For our warehouses, offline retail stores and offices, we have internal policies that require each employee to use best efforts to conserve energy and minimize waste of office supplies. Furthermore, we strive to only purchase environmentally friendly fixtures, appliances and office supplies for our physical facilities.

Certain current suppliers of the Group have experienced historical environmental non-compliance incidents. Such suppliers in the aggregate are not, and were not, during the Track Record Period, material to the Group. Such suppliers have rectified their historical environmental non-compliance incidents, and are currently in compliance with the relevant supply agreements that we have in place with them. Our internal control policies on environmental issues dictate that our supply contracts with suppliers contain covenants from suppliers that they will abide by the relevant

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environmental laws and regulations, as well as to indemnify us for any loss incurred by us that results from any environmental non-compliance by the suppliers. We will comply with Rule 13.91 of Listing Rules regarding Environmental, Social and Governance (“ESG”) disclosure after the Listing.

We have prepared and plan to implement an ESG policy framework post the Listing, but will begin to apply the underlying ESG considerations and drive ESG initiatives in our sourcing efforts prior to the Listing. We will focus on each of areas as specified in Appendix 27 Environmental, Social and Governance Reporting Guide of the Listing Rules, particularly those environmental and social issues that could have a material impact on the sustainability of our operations and that are of interest to shareholders. We have established internal control systems and risk management processes to govern sustainability related practices so as to provide reasonable assurance of effective ESG management to the Board and key stakeholders.

Regarding environment & natural resources, our sustainability vision is to reduce and minimize adverse impact on the environment through a commitment for continuous improvement. Across the operating jurisdictions and activities along the value chain, we plan to improve the awareness and involvement of all shareholders in our sustainable journey to reduce carbon footprint and negative impact on the environment, biodiversity and natural resources. In addition to implementing the ESG policy, we also plan to launch various initiatives to promote eco-friendly practices. We encourage energy conservation by all employees and incorporate eco-friendly practices into daily habits at workplace. We will also roll out more initiatives and awareness training in the future to reduce resources consumption and environmental impact.

Regarding energy consumption, we will take various initiatives to raise awareness of energy reduction and conservation at offices. We encourage energy usage on a need basis, and strongly encourage employees to adopt paperless communication through email reminders.

Regarding emission, we recognize that the use of purchased electricity contributes to the emission of carbon and other Green House Gas (GHG). We have and will continue to take conscious efforts to measure and monitor the consumption of electricity at our corporate offices across operating locations. At corporate offices, electricity consumption is used for the purpose of ensuring normal business operations on a day to day basis. Along our value chain, we also identify the need to focus on electricity consumed at production facilities operated by our suppliers, including hardware ecosystem partners.

We are committed to manage our supply chain in an environmentally-friendly and socially responsible manner. To ensure ethical and socially responsible practices along our value chain, we maintain a zero tolerance for unethical treatment and illegal labor practices including forced labor, child labor, and inhuman working conditions. We have prepared a comprehensive supply chain management protocol to govern our sourcing, on-boarding, performance evaluation, quality checks, as well as undertake the necessary measures to ensure assembly, raw materials, components and product suppliers are compliant with the required regulatory compliance in their respective operating locations. For instance, as part of our on-boarding process, we conduct site inspections and require contract manufacturers to provide evidence or references proving their quality of service, practices, financial capability and track record related to compliance. In addition, we require suppliers, including hardware ecosystem partners to obtain following certifications including ISO 14001 and OHSAS 18001. We also enforce onto our suppliers, as part of their contractual responsibilities, to ensure raw materials and components for our products are compliant with international safety, health and quality requirements,

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including Restriction of Hazardous Substances (RoHS), REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), Waste Electrical and Electronic Equipment Directive (WEEE Directive) and Green Package.

We are in the final stage of selecting, and plan to engage prior to the Listing, a leading ESG consulting firm with a mandate to: (i) further strengthen our ESG risk management and compliance internal control procedures, as well as our information management and reporting mechanisms, in order to ensure full compliance with all requirements and obligations of a public company listed in Hong Kong, (ii) assist with the implementation, effective operation and monitoring of our ESG management system, as well as help with the on-going optimization of our ESG management system, and (iii) raise general awareness of ESG compliance within our Group through effective communication methods.

### **Corporate Social Responsibility**

Since our founding, we have been highly committed to sustainable corporate responsibility projects, both through charitable endeavors and by extending the benefits of our ecosystem to the community at large. For example, we actively participate in disaster relief efforts and are an avid supporter of medical care. We believe the best approach to corporate social responsibility is through embedding elements of social responsibility in our business model.

### ***Job Opportunities***

The breadth of our ecosystem and the range of different types of product and service providers needed within it create employment opportunities. In addition to providing direct business opportunities for our hardware and internet service partners, our ecosystem has created new opportunities for service providers in manufacturing, logistics, training and other technology or internet professions.

### **Legal Proceedings and Compliance**

#### ***Legal Proceedings***

During the Track Record Period and up to the Latest Practicable Date, we are involved in legal or other disputes arising in the ordinary course of our business. The majority of the legal proceedings involve intellectual property claims initiated by us to protect intellectual properties owned by or licensed to us. The legal proceedings against us include claims brought by other technology companies and smartphone manufacturers relating to intellectual property infringement. See the section headed “Risk Factors—Risks Relating to Our Business and Industry—We could be impacted by unfavorable results of legal and administrative proceedings, such as being found to have infringed on intellectual property rights.”

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal proceedings pending or threatened against us or any of our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

#### ***Compliance***

During the Track Record Period and up to the Latest Practicable Date, we have had certain incidents of non-compliance relating to some of our business qualifications, none of which we believe

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could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations, and none of which is material to our Group as a whole.

### *Our game business*

Our Directors believes that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As advised by JunHe, pursuant to applicable mainland China laws and regulations, any entity that provides internet games to the public through information networks is required to have an Online Publishing Service License.

Beijing Wali Internet and Xiaomi Inc., our consolidated affiliated entities, operate an online game distribution business. Neither Beijing Wali Internet nor Xiaomi Inc. holds an Online Publishing Service License. As advised by JunHe, the maximum potential penalty for operating without Online Publishing Service License includes order to suspend business for rectification and revocation of ICP License or shutdown of the website. Beijing Wali Internet has applied for Online Publishing Service License, while Xiaomi Inc. is in the process of preparing an application for Online Publishing Service License which we expect to submit before the Listing. Based on our understanding of the process involved and communication with the relevant authorities, it is uncertain when we will be able to obtain the required licenses.

Beijing Wali Internet and Xiaomi Inc. cooperate with publishers that hold Online Publishing Service Licenses in their online game distribution businesses. With a view to understanding the potential impact of such non-compliance on our operations, we, assisted by JunHe, conducted an interview with the relevant government authorities, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television (“**Beijing BPPRFT**”) in April 2018. Beijing BPPRFT confirmed to us that it recognizes cooperation with qualified publishers in online games distribution business as an interim arrangement before the Online Publishing Service License is obtained. JunHe is of the view that Beijing BPPRFT is the competent authority with the requisite knowledge to provide the relevant confirmation.

For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, the revenue generated in connection with the provision of these services contributed less than 0.05% of our total revenue in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

### *Our online reading business*

Our Directors believe that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that publishes and distributes original literary or comic works is required to have License for Online Publishing

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Service License with the publication and distribution of original literary or comic works approved as a specific item.

Beijing Duokan publishes and distributes original literary and comic works through its platform. However, the permitted items of Online Publishing Service License held by Beijing Duokan does not include the publication and distribution of original literature or comic works approved as a specific item.

The maximum potential penalty for operating with an Online Publishing Service License but without the publication and distribution of original literature or comic works approved as a specific item includes the issuance of warning and order to rectify, and in the event of a serious violation, order to suspend business for rectification and revocation of Online Publishing Service License.

Our business of publication and distribution of original literature and comic work is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, the revenue generated in connection with the provision of these services contributed less than 0.2% of our total revenue in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance. We currently do not plan to significantly expand our online reading business and do not foresee that such business would become material in the near future after the Listing.

### *Our video business*

Our Directors believes that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that conducts video streaming business is required to have License for Transmission of Audio-Visual Programs through Information Network (“**Audio-Visual Programs License**”). Xiaomi Inc. operates Mi Video, Fast Video, Onlooker Video, Wanna Video and Mi Live. All the videos on Mi Video are directed to third-party websites that hold the requisite license. As communicated with Beijing BPPRFT, we believe that Xiaomi Inc. is not required to hold any license with respect to the operation of Mi Video. However, certain videos on Onlooker Video and Wanna Video, and certain non-live streaming videos on Mi Live are directly available, and therefore, Xiaomi Inc. is required to, but does not currently hold License for Audio-Visual Programs License with respect to the operation of those video services. The maximum potential penalty for operating without this license includes order to suspend services, seizure of related equipment used for such illegal activities and a fine of one to two times of the total investment in the business.

According to the applicable mainland China laws, only entities wholly-owned or controlled, directly or indirectly, by the state are eligible to apply for Audio-Visual Programs License. Xiaomi Inc. is not eligible to apply for this license.

Our video business on Fast Video, Onlooker Video, Wanna Video and Mi Live (non-live streaming related) is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, the revenue generated in connection with the

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provision of these services, consisting solely of advertising revenue, contributed less than 0.05% of our total revenue in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance. The Company currently does not plan to significantly expand its video business and does not foresee that such business would become material in the near future after Listing.

### *Our news business*

Our Directors believe that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that conducts news and media business is required to have an Internet News Information Service License. Xiaomi Inc. operates Mi Browser, which displays to Mi Browser users, among others, news provided by a third party that holds Internet News Information Service License through our cooperation with such third party. We communicated with Beijing Municipal Cyberspace Administration in April 2018. Beijing Municipal Cyberspace Administration confirmed to us that (i) Beijing Municipal Cyberspace Administration has no objection to the abovementioned cooperation between us and the third party holding Internet News Information Service License; and (ii) the issuance of Internet News Information Service License will be highly restrictive in the near future. It is worth noting that Xiaomi Inc. may still be required to hold its own Internet News Information Service License by Beijing Municipal Cyberspace Administration. We are in the process of preparing application for this license. However, we expect that it will be difficult for us to obtain such license, and our operation of news business without Internet News Information Service License may be deemed as a violation by Beijing Municipal Cyberspace Administration. The maximum potential penalty for operating without this license includes order to suspend such service and a fine of RMB10,000 to RMB30,000. JunHe is of the view that Beijing Municipal Cyberspace Administration is the competent authority with the requisite knowledge to provide the relevant confirmation.

Our news business is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, the revenue generated in connection with the provision of these services, consisting solely of advertising revenue, contributed nil, less than 0.2%, less than 0.3% and less than 0.4% of our total revenue, respectively, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

### *Internal Control Measures*

The historical non-compliances mentioned above were primarily attributable to administrative oversight, inadequate regulatory risk monitoring management, and the relevant business managers being unfamiliar with and lack of comprehensive understanding of the applicable requirements.

With the assistance of our internal control consultant, we have enhanced our internal control measures with a view to prevent further occurrences. Among other things, our internal control



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consultant reviewed our license update and renewal procedures. Based on the recommendations of our internal control consultant, we have implemented enhanced procedures, including proper documentation and more efficient internal approval process for license updates and renewals. In addition, our Directors believe that we have established adequate internal control measures to ensure that we will be able to obtain and maintain all the material government filings, approval and permits required for our business operation. Such measures include:

- establishing an audit committee comprising of a majority of independent non-executive Directors to supervise our internal control systems;
- our legal department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any updates to applicable laws and regulations;
- we will retain external legal advisor(s) to advise on compliance matters when necessary; and
- developing additional measures, including implementation of internal policies and provision of training programs to the relevant personnel.

### *Views of our Directors on non-Compliance*

Our Directors take the view that, based on the foregoing, no non-compliance incidents had a material adverse effect on our business, financial condition or results of operations during the Track Record Period. We have adopted internal control measures to prevent future non-compliance.

### **Risk Management and Internal Control**

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources and investment management.

### *Financial Reporting Risk Management*

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, budget management policies, financial statement preparation policies and finance department and staff management policies. We have various procedures in place to implement accounting policies and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

As of March 31, 2018, our finance department consisted of 358 employees. It is headed by our Chief Financial Officer.

### *Information System Risk Management*

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that

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user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

At the enterprise level, we established a systematic and universal user account authorization and management mechanism based on which we periodically review the status of user accounts and the related authorization information. We regularly perform security configuration assessment on our databases and servers and implement procedures for system log management.

We have in place a series of back-up management procedures. For our AI and cloud platforms, we deploy different back-up mechanisms including local back-ups and offsite back-ups depending on the needs of our business to minimize the risk of user data loss or leakage. For our information department, we establish protocols for the design, implementation and monitoring of offsite back-ups. We perform data recovery tests on regular basis and retain relevant records.

We provide information security training to our employees and conduct ongoing trainings and discuss any issues or necessary updates from time to time. We also have an emergency response mechanism to evaluate critical risks, formulate disaster response plans and perform emergency drills on a regular basis.

As of March 31, 2018, our AI and cloud platform and IT departments consisted of 1,150 employees in total. The teams are collectively responsible for our IT systems and infrastructure. Among other things, these include ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations.

### ***Internal Control Risk Management***

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our internal control and internal audit team had approximately 20 employees as of March 31, 2018. The team works closely with our business units to (i) perform risk assessments and give advice on risk management strategies, (ii) improve business process efficiency and monitor internal control effectiveness, and (iii) promote risk awareness throughout our Company.

In accordance with our procedures, our in-house legal department, which consists of over 70 employees, examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

We also have detailed internal procedures in place to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

We also have certain compliance teams for our internet finance business, which are responsible for the formulation and implementation of internet finance related-policies and analysis of the regulatory environment with respect to services we provide.

For IP related issues, we have devoted and specialized outside IP legal advisors, in addition to our in-house legal department, to assist us in registering, and applying and reviewing the relevant patent and trademark rights of our IPs.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

### ***Human Resources Risk Management***

We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. We set out a variety of internal rules and guidelines in our employee handbook, including best commercial practice, work ethics and prevention mechanism to avoid fraud, negligence and corruption. We provide employees with regular training and resources to keep them abreast of the guidelines contained in the employee handbook. We formulate recruitment plan for the upcoming year based on current turnover rate and our future business plan, and we constantly improve our recruitment process with the aid of information technology. We also have a rigorous background check process for our incoming employees.

In addition, we provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior employees or external consultants on topics critical to our business operations. The training center schedules regular training, reviews the content of the training, and follows up with employees to evaluate the impact of such training. Through such training, we ensure that our employees' skill sets remain up-to-date.

We also have in place an Anti-Corruption Policy to safeguard against corruption within our Company. We have an internal reporting channel that is open and available for our employees to report any suspected corrupt acts. Our employees can also make anonymous reports to our internal anti-corruption department. We have a team that is responsible for investigating the reported incidents and taking appropriate measures.

### ***Investment Risk Management***

We set up an annual investment plan in line with our business strategies.

We generally intend to hold our investments for the long term. Our investments are generally made in the form of preferred shares (in the case of companies incorporated outside of mainland China) or ordinary shares with preference rights (in the case of companies incorporated in mainland China). In order to manage the potential risks associated with investments, we generally request our investee companies to grant us customary minority investor protective rights.

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks and potential of the investment projects. We employ different levels of approval and due diligence mechanisms corresponding to the specific circumstances involved in an investment project. For proposed investments below a certain threshold within our annual budget, certain authorized senior vice presidents managing certain business units can directly approve such investments, provided they notify the investment department, the Chief Financial Officer and the Chief Executive Officer. If a

proposed investment reaches certain thresholds, then depending on the threshold, the proposed investment project will need to be submitted to (i) our Chief Financial Officer, (ii) Chief Executive Officer plus Chief Financial Officer, or (iii) our Board, for approval. After obtaining the approval from the relevant level of approval authority, the department then drafts and issues term sheets, which set out the principal investment terms. Once the term sheets are mutually agreed, the department will conduct legal, business, financial and operational due diligence on the target companies. Upon completion of due diligence, the investment will be executed by the investment department.

In addition, our investment department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and provide recommendations on measures to reduce any risks involved in each investment project. We have management procedures in place for our investment projects and file documentation to ensure that each investment decision and project is properly documented and archived. All decisions in connection with asset disposal are required to be documented with details of consideration and approvals from the responsible personnel.

#### ***Audit Committee Experience and Qualification and Board Oversight***

We have established an audit committee to review and supervise our financial reporting process and internal control system and monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Chen Dongsheng, Koh Tuck Lye and Wong Shun Tak. Chen Dongsheng and Wong Shun Tak are independent non-executive Directors and Koh Tuck Lye is a non-executive Director. Wong Shun Tak is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see “Directors and Senior Management.”

We also maintain an internal audit department which is responsible for preparing and implementing risk management policies, reviewing the effectiveness of such polices and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

#### ***Ongoing Measures to Monitor the Implementation of Risk Management Policies***

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

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### Licenses, Permits and Approvals

Our Directors, as advised by JunHe, confirm that as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in mainland China, except as disclosed in this prospectus. The following table sets forth details of our material licenses and permits:

<u>License/Permit</u>	<u>Holder</u>	<u>Grant Dates</u>	<u>Expiration Dates</u>	<u>Description of the License/Permit</u>
ICP License . . . . .	Beijing Wali Internet	October 12, 2016	October 12, 2021	Information service business (limited to internet information service) in Type 2 excluding news, publication, education, medical care, drug and medical instruments and electronic bulletin services
ICP License . . . . .	Xiaomi Inc.	September 6, 2016	September 6, 2021	Information service business (limited to internet information service) in Type 2 excluding news, publication, education, medical care, drug and medical instruments and electronic bulletin services
ICP License . . . . .	Beijing Duokan	April 11, 2018	April 11, 2023	Information service business (limited to internet information service) in Type 2 including publication, excluding information search service and information instant interaction service
Added-Value Telecommunications Business License . . . .	Xiaomi Inc.	May 18, 2018	May 7, 2020	Internet data center business (limited to internet resource cooperation services) in Type 1; Domestic multi-party communications in Type 2

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License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
Added-Value				
Telecommunications				
Business License . . . .	Jiefu Ruitong Inc. (捷付睿通股份有限公司)	June 30, 2016	June 30, 2021	1: Information service business in Type 2 (excluding internet information service), covering Inner Mongolia 2: Information service business in Type 2 (limited to internet information service) excluding information instant interaction service and information search service
Added-Value				
Telecommunications				
Business License . . . .	Xiaomi Inc.	May 31, 2018	May 31, 2023	Online data processing and transaction processing business (limited to operational e-commerce excluding internet finance and online taxi booking) in Type 2
Approval of Mobile				
Communications				
Resale Service . . . . .	Xiaomi Inc.	July 5, 2016	N/A	Mobile communications resale service
Online Culture				
Operating Permit . . . .	Beijing Wali Internet	April 26, 2018	September 18, 2019	Operating games (including issuance of virtual currency of online games), shows and plays, performance and comic products through internet
Online Culture				
Operating Permit . . . .	Xiaomi Inc.	April 23, 2018	January 31, 2020	Operating games and music through internet
Internet Publishing				
Service License . . . . .	Beijing Duokan	January 1, 2017	December 31, 2021	Transmission through internet (including mobile network) of officially published books and periodicals in mainland China
Payment Business				
Permit . . . . .	Jiefu Ruitong Inc. (捷付睿通股份有限公司)	August 29, 2016	August 28, 2021	Online payment, mobile payment, bank card receipts

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<u>License/Permit</u>	<u>Holder</u>	<u>Grant Dates</u>	<u>Expiration Dates</u>	<u>Description of the License/Permit</u>
Permitted business scope in its Business License . . . . .	Chongqing Microcredit	July 2, 2015	—	Discount for loan bills and asset transfer within nine primary districts in Chongqing; the abovementioned business can be only conducted online outside of those nine primary districts